

# Nottingham City Council



## — Confidential Waste — Service

- ✓ Business Growth
- ✓ Local Economy Boost
- ✓ Secure Shredding
- ✓ Enviro-Friendly
- ✓ Commercialism Agenda

**Detailed Business Case**

**May 2015**

**Draft**



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## 1.0 PURPOSE OF DOCUMENT

This document defines the business case for the proposed Nottingham City Council confidential waste service and provides the baseline against which the project will be continually assessed.

## 2.0 EXECUTIVE SUMMARY

Redesigning the Nottingham City Council (NCC) confidential waste (CW) service has been discovered as a great opportunity for business growth and also to mitigate the risks associated with current approach. It is important to build on the success of the commercial waste service, which is reaching capacity. Therefore, a natural extension of this core business is the CW service.

The new proposed approach will boost NCC commercial prospects including participation in proper bidding processes (e.g. organised by the Police, NHS etc.), because the service will now be delivered in compliance with industry codes of practice. As a result, the risk of potential enforcement actions from the Information Commissioner's Office (ICO) will also be considerably reduced if not totally removed.

Besides aforementioned merits, reports of recent market and financial analyses have shown that this new approach should improve the Council's surplus, improve its corporate image and boost local economy, while reinforcing commitment to the commercialism agenda.

Top of the proposed market entry strategy is commencing the service by insourcing all NCC CW services - including Nottingham City Homes (NCH). Apart from guaranteeing about 44% of projected income of the first 12 months, this strategy also gives the opportunity to document competence and compliance to industry standards. This is expected to ease the process of acquiring relevant certifications like: ISO 9001, ISO 270001 and BS EN15713. This is expected to improve the service appeal and put it in a strong competitive position in the CW market.

The Directorate's Operations team is experienced enough to deliver this new but familiar service and some of the BDOs have reported cases of CW service enquiries. A summary of the project (recommended option) financials over 7 years is shown below:

<i>Capital Expenditure</i>	£204,000
<i>Total Revenue Expenditure</i>	£550,000
<i>Borrowing Cost</i>	£19,000
<i>Total Income</i>	£1,519,000
<i>Net Income</i>	£746,000
<i>Margin (Excluding indirect overheads)</i>	49%
<i>NPV</i>	£518,000 (Positive)
<i>IRR</i>	35.2%
<i>Total Income to Cost Ratio</i>	2.0
<i>Target Market Share</i>	19%
<i>Unit Cost per Kg (Excluding corporate overheads)</i>	13p
<i>Unit Price per Kg</i>	25p

About 90% of the total capital is the cost of a new MDX model shredding truck - regarded as the best in the industry. This will help provide an onsite CW destruction service (main offer) to customers; therefore, eliminating the risks associated with offsite shredding.

In the final analysis, this document reveals why the service should be redesigned and demonstrates how it will be delivered. It also provides the proof that the service is both marketable and saleable, while showing identified risks and their corresponding mitigants. There are also sensitivity analyses on income variation and considered options. Each of these scenarios (at minimum target market share) returned a positive NPV (see section 5.3); thus, demonstrating the robustness of the business model.

## 3.0 STRATEGIC FIT

### 3.1 Background

Over the years, identity theft has been on the rise - costing the UK over £3 billion every year and more than a quarter of the UK adult population have fallen victim. It represented over 60% of all fraud recorded in 2013.

Hence, all businesses and individuals are at risk if they do not dispose of their documentation in a safe and reliable manner.

The Information Commissioner's Office (ICO) has taken a number of enforcement actions to ensure organisations meet their data protection obligations, as stipulated in principle 7 of the data protection act (DPA).

*“Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.”*

- **Data Protection Principle 7**

In view of the above, every organisation has a responsibility to securely destroy the confidential information they no longer need. A breach of this could result in a fine of up to £500,000 by the ICO. This may also include a criminal prosecution or non-criminal enforcement. For instance, over £800,000 worth of monetary penalties were enforced by the ICO between March 2014 and March 2015, with the Ministry of Justice responsible for 21% of this figure.

Consequently, organisations are increasingly contracting the service of professional confidential waste (CW) management companies to destroy confidential information they no longer require. This is evident in the 12% fall of identity fraud between 2012 and 2013, as reported by the CIFAS in January 2014.

Apart from this representing a lucrative business opportunity; it also offers the chance to help organisations fulfil their DPA obligations and reduce their carbon footprint, while protecting citizens from becoming victims of fraud.

### 3.2 Business Needs

The Nottingham City Council Commercial and Neighbourhood Services Directorate currently offer a confidential waste service as part of its commercial wastes management; however, a recent market analysis revealed that the standard of the service does not comply with industry codes of practice. As a result, the service only has an estimated 0.9% market share.

The analysis also suggests a redesign of the service could result in a market share of up to 19% and a corresponding average annual gross margin of 49% over 7 years. With the Council's commercial waste business reaching capacity, this offers an opportunity to build on its success and represents a prospect of breaking into a new market. This is in line with the Council's commercialism agenda.

Besides safe destruction of confidential wastes, this new approach is also environmentally friendly, as it targets recycling 100% of the confidential wastes destroyed. It will help customers reduce their carbon footprints and also protect the environment.

The following reasons reinforce why the Council's current confidential waste management service should be redesigned:



Image from resortsuite.com

### Reasons to Redesign the CW Service

1. We should currently be offering it in line with industry best practice
2. It promises business growth
3. It will eventually improve surplus
4. It will fit seamlessly into current NCC commercial waste management services
5. All envisaged risks have been assigned corresponding mitigants
6. It will protect us from possible enforcement actions from the ICO and subsequent reputational damage, if found guilty of breaching data protection legislations
7. It will emphasise commitment to the Council's commercialism programme
8. Potential boost for local economy (some very active competitors are not based in the city. Some even have their head offices outside the Country)
9. An opportunity to establish NCC's presence in a new market and sustain market share in existing ones
10. It provides an additional avenue to cross-sell other NCC traded services
11. An opportunity to enlighten citizens on the risks of identity theft and contribute to a safe City/County
12. This proposed approach involves recycling every item destroyed, thereby helping customers reduce their carbon footprint, while also protecting the environment – a campaign the Council is committed to
13. The scope of the commercial waste service insurance policy will cover the CW service; hence, there will be no need for a fresh policy

## 3.3 Strategic Objectives and Outcomes

### Vision

To become a major contributor to the achievement of NCC commercialism priorities.

### Objectives

The following is a non-exclusive list of objectives targeted to ensure penetration into the CW market and achieve a growing market share:

1. To penetrate the CW market through strategic marketing and sales activities
2. To consistently provide excellent customer service
3. To use the service as a platform to demonstrate NCC commitment to a safe Nottingham
4. To regularly seek and document customer feedback
5. To enlighten the DIY section of the market on the importance of contracting a professional CW management company to collect their CWs
6. To adopt relevant KPIs to drive sales (see section 3.5)
7. To leverage on the brand capital of the City Council for business development
8. To explore the strategic partnership between the Council and other public sector organisations (PSOs) through the Council Leadership to win businesses
9. To work in compliance with industry codes of practice
10. To adopt a customer focused pricing strategy
11. To organise adequate training for personnel prior to implementation and regularly afterwards, to keep them abreast of current industry best practice

## Mission Statement

To provide comprehensive confidential information destruction services to individuals and organisations in Nottinghamshire in order to help reduce identity theft within the County and achieve a safe and comfortable environment, while adopting industry best practice.

## 3.4 Scope

The NCC CW service will deliver the following:

1. Onsite CW collection and destruction (main offer)
2. Onsite CW collection and offsite destruction
3. Certificate of destruction
4. Free NCC branded CW consoles/bins
5. Dedicated account officers
6. Free pre-collection premises risk assessment and advisory service. Quarterly assessment on request
7. Weight based and 'per sack' pricing
8. Branded as part of current NCC commercial waste management service

However, the service will not deliver the following:

1. Time based pricing. Although, this may be introduced after full understanding of the industry
2. A new brand name

## 3.5 KPIs

The key performance indicators for the confidential waste service will be monitored on a regular basis. These include:

- ✓ Campaign to lead ratio
- ✓ Lead to quote ratio
- ✓ Quote to close ratio
- ✓ Sales by contact method
- ✓ Sales per rep
- ✓ Sales growth
- ✓ Tonnage/Income to customer ratio
- ✓ Sales per market section
- ✓ Impact on commercial waste revenue



Image from [linkedin.com](https://www.linkedin.com)

These KPIs will be used to drive sales and manage customer relationships. For instance, the income to customer ratio will be both average (all customers per total income) and individual (income per customer). While an average figure will help in understanding the quality of the CW customer base; income per customer figures will help identify the variation of customer profile. This will also involve understanding the cost implications of each contact and sales method.



## 3.6 Constraints

### **Financial**

The cash flow analysis shows that the CW service requires a capital cost of about £204,000 which is expected to be raised via the Vehicle Replacement Programme. A detailed financial analysis is in Sections 5 and 7.

### **Legal**

The Legal Team through a Senior Solicitor advised that CW falls within the statutory definition of commercial waste under the Environmental Protection Act (EPA) 1990, in that *'it is waste from premises used wholly or mainly for the purpose of a trade or business.* Therefore, when collecting such waste within the Council's administrative boundaries, NCC acts as the Waste Collection Authority (WCA) and can recover its reasonable charges – including a slight top-up.

However, collections outside the city boundaries would mean reverting to the local government powers to charge under s.93 *Local Government Act 2003* and s.3 *Localism Act 2011*. Under these acts the charges for the services cannot exceed the cost of provision. Although, Under the *Local Authorities (Goods and Services) Act 1970*, the parties may agree to whatever charges they want in the provision of services.

**Please see the full outcome of the legal consultation in Appendix 9**

### **Operational**

For smooth delivery of the CW service, customer relations management (CRM) and operational monitoring IT systems are required. These are currently not in place. The process flow for the service in figure 8.3 shows how these systems will support the service.

## 3.7 Dependencies

The successful launch of the NCC confidential waste service and its smooth entry into the market largely depend on overcoming the following market entry barriers:

1. Expiry dates of some target customers' current CW contracts with competitors
2. Level of potential customers' loyalty to competitors
3. Shredding truck performance
4. Meeting up with industry best practice
  - a. Certifications
  - b. CRB checks and vetting in accordance to BS7858
  - c. Infrastructure
  - d. Customer service
  - e. Quality assurance
  - f. Operative training

However, barriers '3' and '4' are within the control of the service.

## 4.0 MARKET ANALYSIS

The confidential waste market in Nottinghamshire is lucrative and has an estimated annual value of between £3m to £4.8m, depending on pricing fluctuations. It must be stressed that the market is composed of two categories of customers - the outsourcing and insourcing customers. The former are expected to constitute over 55% of the CW market – suggesting the market is growing and commercial opportunities still abound.

In a recent market survey internally conducted, 61% of participating target customers shred their confidential wastes in-house, including a staggering 91% among schools. Although, their inferred reason for adopting this approach is to cut costs; however, further research showed this could be more expensive in the long run, as it costs a lot of money, time and effort if it is to be done properly.

This group of target customers represent the DIY or untapped section of the confidential waste market. For instance, the school DIY market can potentially guarantee an annual turnover of over £100,000.

### 4.1 Customer Profile and Market Segmentation

Combing the CW market has helped identify the characteristics of both outsourcing and insourcing customers.

#### Characteristics of Outsourcing Customers

- Their CWs are currently picked up by competitors
- They are currently in or running out of contract
- They are either happy, indifferent or dissatisfied with current service
- They usually look to balance security, quality and cost of service
- They usually do not need convincing on why they should outsource the service

#### Characteristics of Insourcing Customers

- They use internal shredders
- They may not understand the demerits and overall cost of in-house shredding
- They may not be aware of DPA guidelines
- They need a form of presentation to convince them to act otherwise
- Although they currently shred their CWs themselves, they still offer a business opportunity in terms of commodity collection and recycling

In addition, from an internal point of view, the CW service will be sold to four different types of customers (see Figure 4.1):

1. Internal customers (All NCC sites)
2. Public sector customers
3. Non public sector customers
4. DIY customers

The proposal is to design a bespoke sales strategy for each of them.

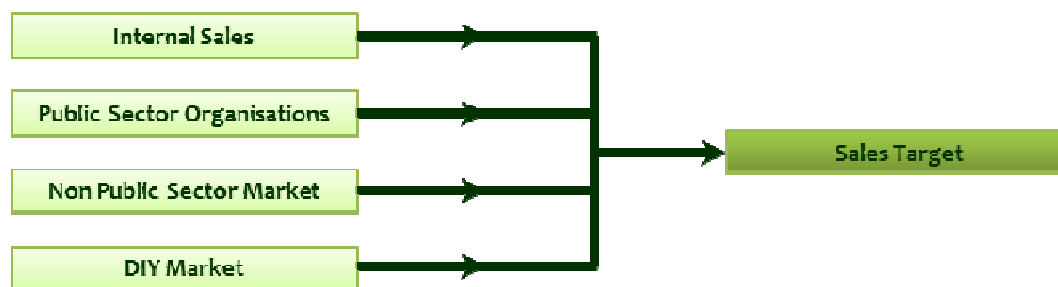


Figure 4.1: NCC CW sales delivery via various market segments

It is expected that launching the service by *insourcing all internal CW services* will help the CW team test its processes and document evidence of competence and compliance to prospective customers and external certification companies. Annually, the City Council (including NCH) spends about £20,000 on confidential waste disposal.

## 4.2 Target Customers

In terms of degree of need for data protection compliance, the following groups of customers are rated 'High' and therefore being prioritised.

- ✓ Healthcare Providers
- ✓ Military/security/Intelligence
- ✓ Law Firms
- ✓ Support/Probation Trust
- ✓ Nottinghamshire Schools
- ✓ Universities and Colleges
- ✓ Local Authorities/PSOs
- ✓ Courts/Prisons
- ✓ Housing/Development
- ✓ Financial and Insurance
- ✓ Others – (It is believed that virtually all organisations generate CWs in one way or the other e.g. via their HRs and other custodians of sensitive documents). This group includes multinationals like E-ON, Biocity et al.

The CW market composition is pictured in figure 4.2 below:

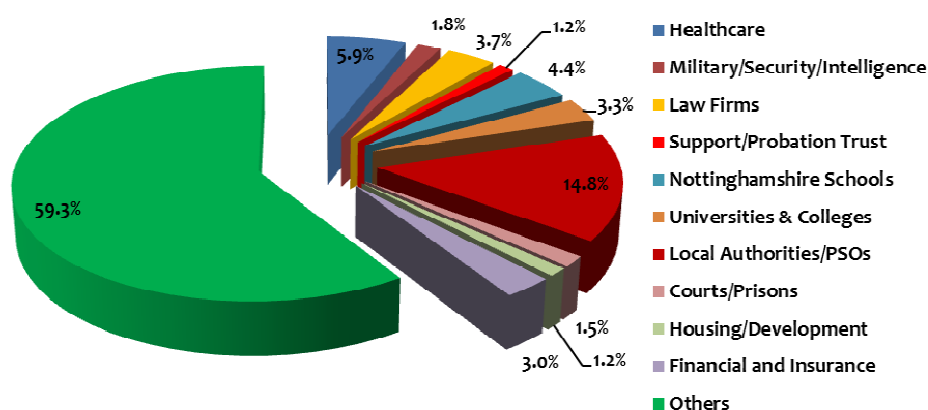


Figure 4.2: The confidential waste market composition.

Figure 4.3 shows estimated annual tonnages of CW generated by a select group of target customers as gathered from a recent internal market survey.

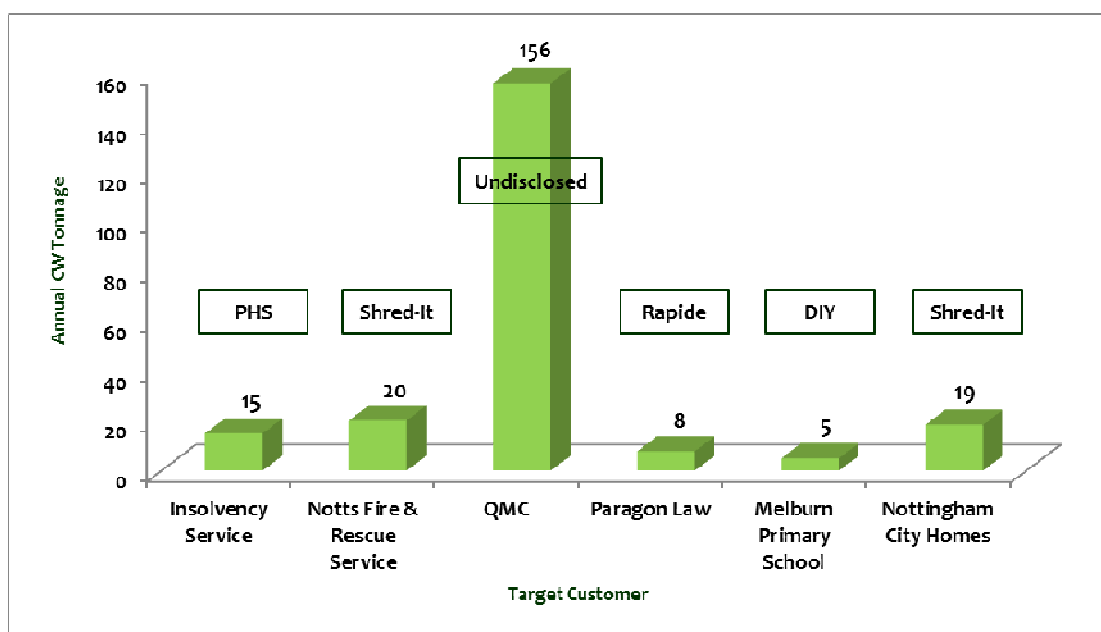


Figure 4.3: Annual tonnage of confidential waste generated by some target customers and their suppliers.

### 4.3 Diversification Opportunities

With growing competitions in the market place, organisations are increasingly adopting the diversification strategy in order to maintain a positive market share, while improving their commercial performance. There is also the foresight on financial risk mitigation, capital preservation and portfolio hedging.

Overtime, this has also provided cross-selling opportunities which usually help increase brand dominance. With the Commercial Waste Service approaching capacity, diversifying into a CW service will provide the City Council the aforementioned opportunities which when taken should have a positive impact on its commercial growth.

### 4.4 Competitors Analysis

Apart from the DIY market, the CW market in Nottinghamshire is currently shared among competitors, some of whom are global brands and have been active for decades.

A noticeable trend among these competitors is that most of them possess relevant industry certifications which they emphasise in their marketing engagements with customers. This is understandable, as most high profile customers seem to consider these certifications before making procurement decisions.

Pricing methods among competitors range from collection per time and pence per Kg to £ per sack pricing. Table 4.1 below gives examples of some of these. Please note that all services included are onsite except otherwise stated.

Table 4.1: Competitor customers and pricing

Competitor	Customers	Pricing Method	Price	Additional Charges
<u>Shred-It</u>	PSOs, financial firms, solicitors etc.	Pence per Kg	40 to 88 (Economy of scale impact)	£75 console pick up or relocation etc.
		£ per Minute	4.91	
<u>ShredAll</u>	Same as above	Pence per Kg	18	£9 fuel surcharge
		£ per sack	2.15 to 3 (Offsite)	
<u>PHS Datashred</u>	Same as above	Pence per Kg	14 to 17 (Offsite)	Unconfirmed
<u>UK Waste Limited</u>	Same as above	Pence per Kg	20	Unconfirmed
		£ per sack	2.2 to 3	
		£ per 120 Ltr bin	7.55	
		£ per 240 Ltr bin	11.33	
<u>Birmingham City Council</u>	Same as above	Pence per Kg	50 (Offsite)	
<u>NCC (Proposed)</u>	NCC and few schools	Pence per Kg	25	None
		£ per sack	2.5 to 3.5	

*ShredAll charges 55p/kg for media destruction.* It is recommended that the CW team regularly gather current industry pricing, in order to keep abreast of pricing variations in the market.

In addition, most competitors who offer a lower price than NCC for Onsite shredding actually do more of Offsite and are able to balance their books with major investments in Offsite shredding facilities. A typical example is ShredAll. Nonetheless, the NCC CW business model has been designed to withstand such market variations. For instance, Option 2b has the lowest NPV at 25p/Kg; it will still return a positive at £192,000 over the project year if prices are pegged at 18p/Kg.

### **Case Study: Shred-It**

Shred-It represents a stand out example of high competitors with offices scattered in 170 markets and 18 countries around the World. It was established in 1988.

#### *Business Focus*

It specialises in confidential information destruction services. It provides secure shredding, hard drive and media destruction, community shredding events etc. It also provides free Security Risk Assessments.

#### *Coverage*

Shred-It is a global brand with head office in Oakville Canada. It has 15 locations in UK including Nottingham. The Nottingham outlet provides services to Nottingham, Derby, Leicester, Lincoln, Sheffield, Barnsley and according to their website – everywhere in between.

#### *Certifications*

Shred-It's certifications include: ISO 9001:2008, ISO 14001:2004 and EN15713. It is also a principal member of the British Security Information Association (BSIA).

### Customers

Local authorities; legal and financial institutions and other businesses. Its Manchester office is currently listed as a supplier with NCC.

### Certificate of Destruction (COD)

They issue COD upon CW destruction.

### Financial Performance

It recorded a nationwide (United Kingdom) turnover of £39.6m in 2011, following more awareness to businesses (DIY Market) about the need to protect their data.

### Pricing

The chart in figure 4.4 shows different rates charged by Shred-It at different NHS boards in Scotland, according to a facilities Shared Service Programme report of November 2013.

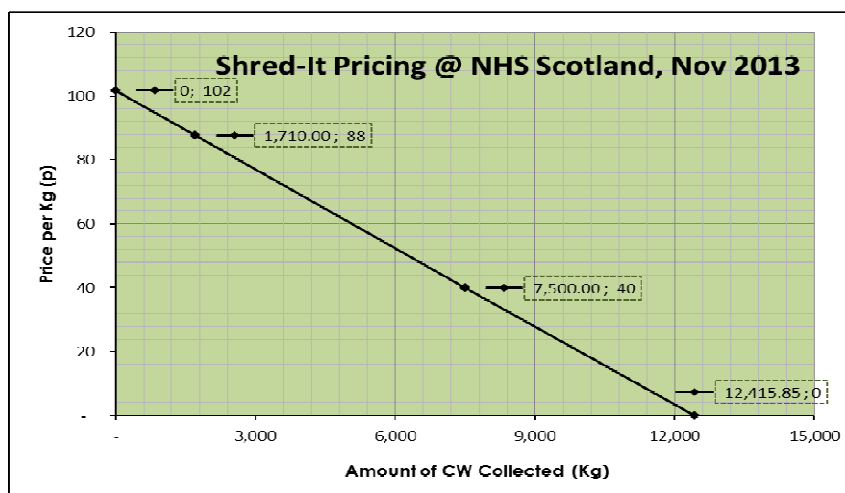


Figure 4.4: Shredding rates charged by Shred-It at different NHS boards in November 2013.

Just like some competitors, Shred-It also has ancillary charges which mostly is around bin movement (delivery, pick up, relocation etc.) and sometimes, inner city parking or congestion fees for regularly scheduled customers located in the Greater London Area.

### Website

The company has got a [robust interactive website](#) dedicated to its services. Please [click here](#) for an example video of Shred-It onsite shredding process.

## 4.5 Key Risks and Mitigants

Figure 4.3: Risks and mitigating strategies in place for the service

Risk	Description	Mitigants
Financial Risk	Venture may not be profitable	Aggressive marketing strategy including insourcing all internal CW services and approaching PSOs in the County. Experienced BD team.  Please see the CW marketing strategy document.
Market Risk	Unfavourable pricing fluctuation	Varied sensitivity analyses showed a robust business case. Financial analyses have also been done with low limit pricing figures and still yielded positive NPVs.
Operational Risk	IT System breakdown resulting in loss of relevant information. Damage to shredding system/truck breakdown.	Experienced IT workforce and robust system. Strong quality assurance system and active warranties. There is also an immediate response policy from Global/Shred-Tech engineers in case of breakdown. Truck can be remotely interrogated from their site. Another contingency plan is to re-arrange collection times.
Legal & Regulatory Risk	Breaching legal and regulatory stipulations.	Principle 7 of DPA documented and understood. Support from NCC legal team and use of external certification experts. Done
Health and Safety Risk	Possible threat to truck driver's safety - accidents, physical assault etc.	Full insurance cover, adequate health and safety training for staff on safe use of systems and dealing with possible attacks.
Integrity Risk	Compromise of customer's confidential information by NCC staff.	Vetting and full CRB check included in recruitment process. CW operatives have limited access to confidential materials.
Paperless System Risks	The risk of most organisations moving towards a paperless system.	Recently conducted market research suggests only a small percentage of target market currently operates a paperless system and there are no signs of a considerable number joining in, any time soon. In addition, the proposed shredding truck can destroy media items like CDs, floppy disks etc.

## 4.6 Professional Bodies

In order to keep abreast of current happenings in the CW industry, joining or liaising with some of the following professional bodies are recommended.

- ✓ British Security Industry Association (BSIA)
- ✓ United Kingdom Security Shredding Association (UKSSA)
- ✓ National Association for Information Destruction (NAID)
- ✓ Professional Records and Information Services Management international (PRISM)

## 4.7 SWOT Analysis

Table 4.2: Analysis of strength, weakness, opportunities and threats

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>✓ Experienced operations team</li> <li>✓ Awaiting market share (insourcing opportunities)</li> <li>✓ Strong brand capital</li> <li>✓ Strong connection and relationship with other PSOs</li> </ul>	<ul style="list-style-type: none"> <li>✓ Limited CRM and operational monitoring system support</li> <li>✓ No dedicated interactive website</li> <li>✓ Limited market experience and specialist reputation</li> <li>✓ Competing with established rivals</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>✓ Leveraging current FM package for schools</li> <li>✓ Increasing surplus stream</li> <li>✓ Impact of acquired certifications on existing traded services</li> <li>✓ Citizens CW collections</li> </ul>	<ul style="list-style-type: none"> <li>✓ Length of target customers' current CW contracts</li> <li>✓ Target customers' loyalty to competitors</li> <li>✓ Truck breakdown</li> <li>✓ Market entry delay (target contracts)</li> </ul>



## 5.0 OPTION APPRAISAL

About 90% of the estimated capital cost for the confidential waste service is on the shredding truck; hence, this section focuses mainly on its procurement. Different categories of options have been identified and each of them considered.

### 5.1 Truck Options

1. Current Approach (Do Nothing) Vs Truck Purchase
2. Truck Purchase: MDS Vs MDX Model
3. Truck Purchase: New Vs Used (X2) Vs Used (X1)

#### Current Approach (Do Nothing) Vs Truck Purchase

Doing nothing would mean continuing with the current standard of service which has brought limited commercial opportunities, as reinforced by a less than 1% market share. This is largely down to the absence of an 'industry codes of practice' compliant CW service.

The service currently focuses only on ad-hoc collections and is unable to participate in corporate procurement processes, especially those facilitated by market sections like the Police, hospitals, financial institutions, legal firms etc, who interestingly generate the highest tonnage of confidential wastes.

Doing nothing will also limit the chances of diversifying into a new market, which often provides the additional opportunity of cross-selling other commercial services.

There are also potential risks associated with non-compliance with industry codes of practice. These could range from monetary or legal enforcement by the ICO to bad press if found guilty of breaching data protection legislations. A representative of Nottinghamshire Police once described NCC current approach as "too risky."

Although from an investment point of view, there may be an opportunity cost should there be another potential project with a higher ROI. If the recommendation to redesign the service (including purchasing a shredding truck) is approved, the potential opportunities listed in 'section 3.3' are there for the taking.

However, considering the risk identified above with our current operation, the options may be to either redesign the service or stop it completely. It is important to state that this will put an end to current incomes and savings from providing the service in-house (Loxley House) and externally to schools, not forgetting the additional cost of outsourcing the service; especially in the case of Loxley House which generates the highest tonnage of CW among NCC sites.

#### MDS Vs MDX Models

Although the MDS model can shred confidential wastes up to shred number 3 (industry standard); it is however, edged by the MDX line on the ground of 'ultra high security mode' – a feature possessed by the latter. Usually, industries with a high appetite for DPA compliance typically prefer this option, as it gives more peace of mind.

Interestingly, these form the major composition of our target market. They include: The Police, schools, legal organisations and some public sector organisations. Please see Table 5.1 below for their comparisons:

**Table 5.1: Comparison of the MDS and MDX shredding truck options**

Truck Model	MDX Line	MDS Line
Shredding Rate	2,950 Kg/hr	2,500 Kg/hr
Payload	6,000 Kg	6,500 Kg
Ultra High Security Mode	Present	Absent
Shred Number	Up to 6	Up to 3
Price	£182,500	£160,000

### **New Vs Used (X1) or Used (X2)**

Usually, purchasing used vehicles reduces access to a full complement of manufacturers' protection policies. A notable operational risk identified in section 3.9 is that of the shredding truck breaking down. The mitigation strategy is to comply with recommended maintenance regime and explore the warranty and other protection policies that come with the purchase of a new truck. This mitigation could be weaker or void if a used truck is bought.



Image from nairaland.com

Secondly, the mechanical condition of a used truck may not be assuring, especially when considering that the proposal is to start with just ONE truck. This expectedly increases the aforementioned risk.

However, buying a used truck could be considered from two different angles. The first consideration is to buy two used trucks during the life of the service - to make up for the limitations in remaining years left on the truck life. For example, if a used truck with a life of 7 years is bought in its third year; that means there are only four years left on it. Therefore, in order to deliver the service after year 4, another used truck will be required.

The financial analyses of this option and that of a new truck show that they both result in the same investment payback period. Interestingly, the analyses show that it might be more expensive to adopt this approach in the long run, as shown by its lower NPV over 7 years.

The second consideration is to purchase 'just one used truck' and use it for the first 7 years of the service, irrespective of the number of years remaining on its life. In other words, going by the analogy above, the service may be able to squeeze a further 3 years or more out of the truck. This might be possible if special attention is given to it, in terms of regular

proactive and reactive maintenance. For instance, the mechanical supervision and repairs of the truck could be given priority at all times by the Fleet Maintenance team, while a member of the team is assigned to ensure this. It is conjectured that this can help mitigate the flagged operational risk.

In view of the lower capital investment required for this approach (compared to buying a new truck) and the uncertainty over the extent of market penetration after service commences; this seems like a safe option. However, it is important to once again stress the operational risk associated with this approach.

## 5.2 Options Analysis

This section highlights the different potential outcomes for options 1b, 2b and 3b.

**Table 5.2: Comparison of new and used truck options over project life**

<b>Option 1b (Recommended) - New Truck and no income from commodity</b>	
Outputs	Nottingham City Council procures a suitable new CW Shredding Truck. Relevant certifications will be obtained. In addition recruitment will be undertaken to employ the main vehicle operative.
Capital Spend	£204k
Revenue Spend	£569k (Including borrowing costs)
Total	£773k
NPV	£518k positive
Timescales	Within 3 months
Risk	Mild
<b>Option 2b – Two used trucks and no income from commodity disposal</b>	
Outputs	Nottingham City Council procures a suitable used CW Shredding Truck every 3.5 years. Therefore for the purpose of this options appraisal it is assumed that two used vehicles will be required, as it is assumed that the end of life of the vehicle could be reached before the end of 7 years. Relevant certifications will be obtained. In addition recruitment will be undertaken to employ the main vehicle operative.
Capital Spend	£256k
Revenue Spend	£568k (Including borrowing costs)
Total	£824k
NPV	£511k positive
Timescales	Undeterminable, as it depends on the availability of a suitable vehicle.
Risk	There is a significant risk that a suitable vehicle will not be available for purchase.  There also exists the risk that the costs entered in the financial model have been materially underestimated as there were no suitable vehicles in the market place from which to ascertain a suitable price.
<b>Option 3b – One used truck and no income from commodity disposal</b>	
Outputs	Nottingham City Council procures a suitable used CW Shredding Truck which is 3.5 years old, and uses and maintains this vehicle for the seven year life of the project. Relevant certifications will be obtained. In addition recruitment will be undertaken to employ the main vehicle operative.

Capital Spend	£129k
Revenue Spend	£587k (including borrowing costs)
Total	£716k
NPV	£561k positive
Timescales	Undeterminable, as it depends on the availability of a suitable vehicle.
Risk	<p>There is a significant risk that a suitable vehicle will not be available for purchase.</p> <p>There also exists the risk that the costs entered in the financial model have been materially underestimated as there were no suitable vehicles in the market place from which to ascertain a suitable price.</p> <p>In addition there is a risk that a used vehicle purchased at 3.5 years old will not have a further 7 years of useful life remaining.</p>

### 5.3 Sensitivity Analysis

The most sensitive area of the financial model is the estimated market share that will be achieved. Although some costs are estimated, but a degree of prudence has been applied, while optimism bias of 10% has also been included. Therefore these are not felt to be overly sensitive. Although marketing and advertising will take place, there is no guarantee that contracts will be won.

Sensitivity analyses have been undertaken to understand the financial impact should the project not achieve the target market share. For clarity, the percentages shown in the Table 5.3 are not the percentage of market share achieved, but the percentage of the projection achieved. For instance, the projected market share is 19.2% at the end of year 7; in the column labelled 50% this assumes that a market share of 9.6% is achieved at the end of year 7.

**Table 5.3: Sensitivity analysis of options 2a and b**

	NPV at 75% of target market share (£)	NPV at 50% of target market share (£)	NPV at 44% of target market share (£)
<b>Option 1b</b> – Procuring a new vehicle	-290k positive	-62k positive	-8k positive (minimum acceptable % of target market share)
<b>Option 2b</b> – Procuring two used vehicles	-283k positive	-55k positive	0.1k negative
<b>Option 3b</b> – Procuring one used vehicle	-331k positive	-103k positive	-48k positive

From Table 5.3, both options 1b and 3b allow the market share to drop to 44% of the target and still have a positive NPV. At this percentage of market share option 2b returns a negative NPV, illustrating that if only 44% of target market share/tonnage is achieved after the 7<sup>th</sup> year, this option will not be profitable.

Sensitivity was also undertaken to understand what will happen if take up of the service is slower than modelled. For instance, if only 1.2% market share is achieved after year 1 instead of the projected 3.5%; the analysis showed that all options still returned a positive NPV, £485k for option 1b and £527k and £454k for options 3b and 2b respectively.

## 5.4 End of Life Use

It is proposed that at the end of the life cycle of the truck (this should be confirmed with the supplier), the mechanical state of the shredding truck is assessed to determine its level of performance and value. It is then disposed of at a commercial vehicle auction.

Although, there may be an option of continued usage - provided the vehicle is still of required efficiency.

## 5.5 Recommendation

In view of the above, it is hereby recommended that a new MDX 2 model be purchased for the service. (See rest of recommendations in section 8).

## 6.0 COMMERCIAL ASPECTS (Financial Case)

The CW shredding truck is a scarce resource, as only few suppliers sell it in the UK. After a research into the market, Shred-Tech seems the only firm that offers the truck with desired specifications - its MDX range. Global Recycling Solutions Limited is a Shred-Tech distributor in the UK.

It is recommended that the Fleet Management team comes up with a procurement strategy to purchase the truck. This may involve the completion of a decision making form (DDM) which should include the following:

- ✓ Requirements
- ✓ Supplier Options
- ✓ Form of Contract (terms, duration, payment mechanism and performance incentives)
- ✓ Risk allocation and transfer
- ✓ Timetable
- ✓ Value for Money.

Although, initial findings reveal that this process can take up to 3 months.

## 7.0 AFFORDABILITY (Financial Case)

This section focuses on the analysis of six different financial scenarios for the CW service. The essence of this exercise is to assess the sensitivity of the project in the face of cost and income variations. Also, a lower limit pricing figure (between the range 25 – 60p/Kg) has been used for each case. This has been done to make the business case robust and able to withstand potential market fluctuations.

### 7.1 Description of Scenarios

#### Scenario 1

- a. New truck and higher limit estimate - A scenario of extra income from commodity sales.
- b. New truck and mid-limit estimate - A scenario of no income from commodity sales.
- c. New truck and lower limit estimate – A scenario where commodity disposal is paid for

#### Scenario 2

- a. Two used trucks and higher limit estimate - A scenario of extra income from commodity sales.
- b. Two used trucks and mid-limit estimate - A scenario of no income from commodity sales.
- c. Two used trucks and lower limit estimate – A scenario where commodity disposal is paid for

#### Scenario 3

- a. One used truck and higher limit estimate - A scenario of extra income from commodity sales.
- b. One used truck and mid-limit estimate - A scenario of no income from commodity sales.
- c. One used truck and lower limit estimate – A scenario where commodity disposal is paid for

Although, all scenarios returned positive NPVs for target market share; however, option 1b analyses have been used in this document, it seems the safest and most probable upon implementation. Other scenarios are found in the Appendix section of this document.

### 7.2 Project Financials

A summary of the CW project over 7 years is shown below:

Capital Expenditure	£204,000
Total Revenue Expenditure	£550,000
Borrowing Cost	£19,000
Total Income	£1,519,000
Net Income	£746,000
Margin (Excluding indirect overheads)	49%
Total Income to Cost Ratio	2.0
Target Market Share	19%
Unit Cost per Kg (Excluding corporate overheads)	13p
Unit Price per Kg	25p

Table 7.1 below shows the projected cash flows for the project (assuming it goes live in November 2015). This shows expected income to be £1.519m against expenditure of £773,000, resulting in a net income of £746,000 over the life of the project. This, ignoring overheads represents a profit margin of 49%.

It is expected that the capital expenditure will be met through the Vehicle Replacement Programme, although, a cost of borrowing has been included in the cash flow below with an interest rate of 2.37% for demonstration purposes.

Optimism bias has been included at 10% to mitigate any under profiling in the expected cost associated with the venture.

Table 7.1 also shows that in the financial years 2015/16 and 2016/17, there is a revenue shortfall of £11,000 and £14,000 respectively. This will need to be funded from other service areas. Thereafter, the project has a positive impact with surplus increasing from £27k in 2017/18 to £215k in 2021/22 and tailing off to £155k in the final year.



Table 7.1: Cash flow analysis for option 1b financial case

Year	0	1	2	3	4	5	6	7	8	Total
Financial Year	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
<b>EXPENDITURE (£)</b>										
<b>Capital Expenditure</b>										
Cost of Vehicle	182,500									182,500
Certification Expense	1,560									1,560
Secure Consoles	1,646									1,646
Optimism Bias	18,571									18,571
<b>Total Capital costs</b>	<b>204,277</b>									<b>204,277</b>
<b>Cash Flow</b>										
<b>Revenue Expenditure (£)</b>										
Marketing	6,000	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	27,000
Recruitment Costs	1,000		0	0	0	0	0	0	0	1,000
Other Operating Expenses	1,000	0	0	0	0	0	0	0	0	1,000
Vehicle Operating Expenses	0	4,540	20,844	29,199	42,178	53,267	62,934	65,276	40,802	319,041
Staffing Costs		8,773	21,232	21,656	21,907	21,907	21,907	21,907	12,779	152,067
Optimism Bias	800	1,331	4,508	5,386	6,833	7,817	8,784	9,018	5,533	50,011
Loan Repayment		0	31,842	31,842	31,842	31,842	31,842	31,842	31,842	222,895
<b>Total Revenue Expenditure</b>	<b>8,800</b>	<b>14,644</b>	<b>81,426</b>	<b>91,083</b>	<b>105,760</b>	<b>117,834</b>	<b>128,467</b>	<b>131,044</b>	<b>93,957</b>	<b>773,014</b>
<b>INCOME (£)</b>										
Cash receipts from pick-ups - by weight	0	-12,885	-67,231	-118,486	-185,638	-244,078	-295,043	-346,008	-219,180	-1,488,548
Disposal of Vehicle	0	0	0	0	0	0	0	0	-30,000	-30,000
<b>Total Income</b>	<b>0</b>	<b>-12,885</b>	<b>-67,231</b>	<b>-118,486</b>	<b>-185,638</b>	<b>-244,078</b>	<b>-295,043</b>	<b>-346,008</b>	<b>-249,180</b>	<b>-1,518,548</b>
<b>NET Income / Expenditure</b>	<b>8,800</b>	<b>1,759</b>	<b>14,195</b>	<b>-27,403</b>	<b>-79,878</b>	<b>-126,244</b>	<b>-166,576</b>	<b>-214,964</b>	<b>-155,224</b>	<b>-745,534</b>

## 8.0 ACHIEVABILITY

### 8.1 The Service

The NCC Confidential Waste (CW) Service is designed to give customers a bespoke cost-effective confidential information destruction option based on their current needs. The service provides the apt economic solution in current challenging financial climate without compromising on quality. It will be provided in line with ISO 9001, ISO 27001 and BS EN 15713 standards which stipulate industry codes of practice. Fig 8.3 shows a high level detail of the CW service process flow.

In addition to the ability to deliver the service, current market and cash flow analyses also forecast financial success for the service, as detailed in section 7.

### Examples and Categories of Confidential Information and Material

Examples and categories of confidential information are shown in Tables 8.1 and 8.2 below.

**Table 8.1: Examples of Confidential Information**

Name & Address	Income / Salary	Career History
Contact details	Bank Account	CV, interview notes
Date of birth	Investments	References
Age, sex, ethnicity	Credit History	Compensation Packages
Physical Description	Loans	Attendance Records
National Insurance Number	Benefits	Holiday Records
Drivers Licence Number	Insurance Details	Sickness Records
Passport Number	Pensions Information	Appraisal Records
Marital Status / history	Academic Records	Disciplinary Records
Other family members	Qualifications / Skills	Commercially Sensitive Information
Next of Kin information	Training records	Court proceedings
Leisure Activities	Professional Expertise	Club Membership details

**Table 8.2: Categories of confidential material**

Category	Descriptions
A	Paper, plans, documents and drawings
B	SIM cards and negatives
C	Video/Audio tapes, diskettes, cassettes and film
D	Computers including hard drives, embedded software, chip card readers, components and other hardware
E	ID cards, CDs and DVDs
F	Counterfeit goods, printing plates, microfiche, credit and store cards and other Products
G	Corporate or branded clothing and uniforms
H	Medical X-rays and overhead projector slides
NOTE Hazardous waste is not included in this table. Users are advised of the existence of legislation applicable to the destruction and/or disposal of hazardous waste.	

## USP

The USP of the NCC CW service will be the absence of hidden charges and its zero risk policy. Another unique feature is the inclusiveness in an FM package or a commercial waste bundled package.

## Offerings

The offerings of this service are listed below:

- ✓ Onsite CW collection and destruction
- ✓ Onsite CW collection and offsite destruction
- ✓ Certificate of destruction
- ✓ Free NCC branded CW consoles/bins
- ✓ Dedicated account officers
- ✓ Free pre-collection premises risk assessment and advisory service. Quarterly assessment on request
- ✓ Weight based and 'per sack' pricing
- ✓ Branded as part of current NCC commercial waste management service

## 8.2 Why Us?

Considering the high competitiveness of Nottinghamshire confidential waste market, it is important to enter the market with a customer focused service with visible endearing features. A considerable number of target customers are currently tied into contracts with competitors, while some of them are already enjoying cost effective CW service with excellent customer experience.



Image from foodtoyourdoor.co.uk

Nevertheless, it is strongly believed that the introduction of a new customer-centric service with clear benefits will attract customers; thereby, helping it withstand market competitions and gaining acceptable entry.

The following are the features of the NCC CW service which should give it a competitive edge in the CW market.

1. Destroyed confidential information cannot be re-assembled; hence, complete peace of mind guaranteed
2. The service will deliver onsite shredding; hence, meeting the standard requirements of 'high DPA compliance appetite' sectors – Police, Schools, Accountants etc. In addition, an offsite offer is deliverable.

3. Enhanced CRB checks and vetting on personnel involved in confidential information destruction. This makes them suitable to work even in the most security conscious sites like police stations, banks and schools.
4. Issuance of a certificate of destruction to customers upon destroying their CWs.
5. Proposed shredding truck is reported as best in the industry. The Shred-Tech MDX Line can switch to an 'ultra high security mode'.
6. Price competitiveness of service. In addition, it is more cost effective in the long run to use the NCC CW service than in-house shredding.
7. There are no hidden charges – pricing is simple and straightforward.
8. Dedicated account officers for ease of enquiries and wonderful customer experience.
9. Proposed service is 'Green', as all our destroyed confidential wastes are recycled. In addition, vehicle routes are efficiently planned to reduce travel time, fuel usage and emissions. This underlines the Councils commitment to help protect the environment.
10. Proposed IT infrastructure will ensure trucks are remotely monitored to ensure customers' expectations are met. For instance, any missed collection will be flagged.

### 8.3 The Confidential Waste Team

The CW Team includes the different specialist departments and professionals responsible for the regular smooth delivery of the NCC confidential waste service.

A breakdown of required workforce is detailed in Figure 8.1 below.

- ✓ Operations Team – managers, back office staff, drivers
- ✓ BDOs
- ✓ Strategic Support - Commercial Development (marketing, business analysis etc), Service Improvement, IT

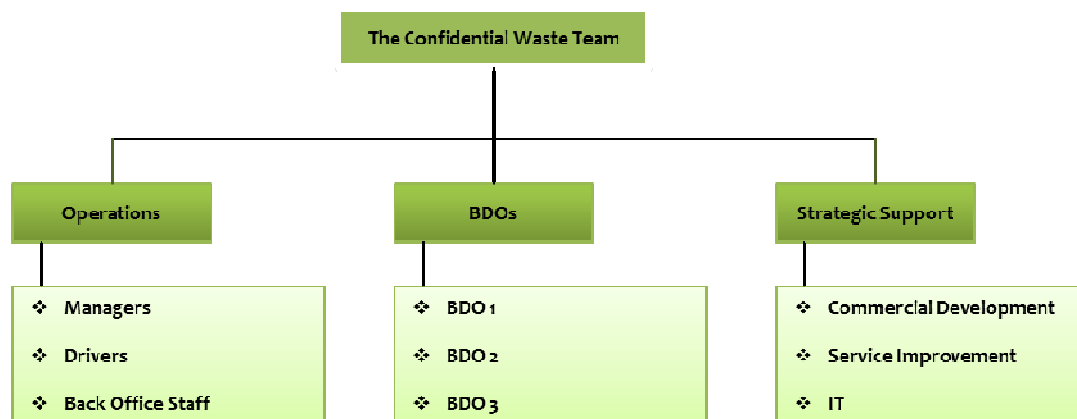


Figure 8.1: The Confidential Waste Team

## The Operatives

All personnel involved in the destruction of confidential information will:

1. Be vetted in accordance to BS 7858, which includes a Criminal Records Bureau (CRB) check or Disclosure or Barring Service (DBS) check
2. Sign a deed of confidentiality prior to commencement of employment or operation in case of existing drivers who will be seconded to the CW service.
3. Undergo training relevant to their line of duties, as stipulated in the industry codes of practice.

It is proposed that Trading Operations lead on this.

## 8.4 The Truck

The CW shredding truck is a turnkey resource that provides a full shredding solution. The Shred-Tech MDX line has been recommended for this service because of its unique features which gives it an edge over rival brands. It can switch into the Ultra Secure Mode in 4 seconds allowing it to shred confidential wastes into a size as small as 4mm.



Fig 8.2: An MDX line shredding truck, accessories and shredded products

This provides peace of mind to clients in sectors with high appetite for DPA compliance – police, schools, courts, law firms.

It is proposed that the collection of both paper and media (and others like uniforms etc) wastes should be done at separate times to minimise commodity contamination.

## 8.5 Pricing

Considering market competitiveness and budget pressures faced by most target customers, a straight forward customer-focused pricing strategy is recommended for the success of this service.

Recent market analysis shows that the price of shredding CW per weight can range from 19 to over 60p per Kg, depending on whether the destruction is onsite or offsite. This

could exclude hidden charges like console rental, fuel surcharge and console delivery and pick-up fees. Consequently, a competitive average price of 25p per Kg is proposed for the service without any hidden charge.

Base on a unit cost of 13p per Kg (excluding corporate overheads), Table 8.3 shows proposed baseline pricing model for the CW service.

**Table 8.3: NCC CW Pricing Model**

Weight	Upper Limit (UL)	Unit Price	Unit Gross Profit	UL Gross Profit
0 – 50Kg	50	60p	47p	£24
51 – 100Kg	100	50p	37p	£37
101 – 200Kg	200	45p	32p	£64
201 – 300Kg	300	40p	27p	£81
301 – 500Kg	500	33p	20p	£100
501 – 1000Kg	1000	28p	15p	£150
> 1000Kg	1500	25p	12p	£180

## 8.6 Market Entry Strategy

In order to achieve a smooth entry into the confidential waste market, a market penetration strategy has been designed to fit research findings. This involves the following:

1. Insourcing all NCC and NCH CW services – including sites outside Loxley House
2. Strategic marketing campaign including an Inclusive Package for existing commercial waste customers. This may also go into the current FM package for schools.
3. Collaborative contracts with other PSOs
4. Adherence to relevant quality assurance standards, while keeping abreast of industry best practice
5. A customer focused pricing model
6. Cross selling via current NCC customer base
7. Proactively investigating relevant tenders and contracts
8. Leveraging on NCC brand capital
9. Constituting a Business Development Focus Group. The group will support the CW team until it achieves 5% market share or a cumulative tonnage of 200 tonnes.

## 8.7 Marketing Strategy

The CW marketing strategy details the different bespoke marketing approaches designed to capture each segment of the CW market. The focus of this strategy is to target sections of the market with high appetite for compliance in their confidential information handling, due to the nature of their operations and high sensitivity of the information they keep. Marketing tools will be tailored to suit target customer requirements.

## 8.8 Why the Service is Sellable

Considering existing market presence, BDO feedback on CW enquiries from current customers and the overall (proposed) packaging of the CW service, the level of success expectation is reasonably high. Below are some of the reasons why the CW service is considered sellable.

### **Internal Insourcing**

The first step to achieving sales targets is to insource ALL confidential waste services within the Council – Loxley House and all other sites. Insourcing all NCC and NCH CW services can guarantee about 44% of year one projected income.

### **Proof of Competence and Compliance**

Insourcing the CW service will form a baseline for process testing, while providing the opportunity to document service competence and compliance to industry standards. This should ultimately put the service in a competitive position for future sales and procurement successes.

### **Existing Customers**

According to the Directorate BDOs, there have been numerous enquiries on CW service by existing customers. Hence, there is a percentage of existing commercial waste customers which will require little or no convincing to buy the NCC CW service.

### **The DIY Market**

Despite attempts by competitors to woo the DIY market, it still has a considerable representation in the CW market. The advantage of this is that unlike some target customers who are currently locked in procurement contracts with competitors, this untapped section is open and able to go into contracts with little or no impediment.

### **Proposed Quality Standards**

Adherence to industry codes of practice will impact ability to deliver the service appropriately. An entrenched quality assurance system will surely impact sales growth, as customers consider this before making contractual commitments.

### **FM Package**

Another way sales success will be ensured is to approach FM Package customers with the aim of widening their package scope to include CW.

### **Council/Directorate Leadership Clout**

Leveraging on the relationship of the Council/Directorate leadership with that of other PSOs will also improve the chance of selling the service, particularly to other PSOs, perhaps in collaborative contracts.

### **Customer-Centric Pricing**

The NCC CW service reflects the recognition of price as a crucial driver in successful selling. It has been designed with focus on competitive pricing, which should ease business development.

### **The Business Development Focus Group**

The expected constitution of a BDFG will surely ease the job of market penetration and sales/tonnage target achievement. The importance of a pool of vast talented resources certainly cannot be overemphasised.

## 8.9 Quality Assurance

Crucial to a smooth market entry and acceptability is consistent compliance with industry codes of practice, as many organisations consider this in their procurement processes. This includes the acquisition of ISO 9001, ISO 27001 and BS EN 15713 certifications.

A prerequisite to achieving these certifications is demonstrating that the NCC commercial waste (including confidential waste) service complies with these standards. This will be documented for about 3 months before an external certification company is invited to facilitate the certification process. It is proposed that the **Performance and Quality Manager** in the Service Improvement team leads on this.

The secure destruction of confidential material code of practice - BS EN 15713 standards has recently been purchased so that operations can commence in full compliance with industry best practice, while it prepares for external certifications.

## 8.10 The Process Flow

The process flow for the confidential waste service is summarised with the flow diagram in Figure 8.3. It highlights the flow of activities from the marketing campaign to revenue collection stage.

It is proposed that this is signed off for full compliance.

## 8.11 Exit Strategy

It is expected that achieving the business objectives of this service will be given full commitment, by delivering it in line with the recommendations of this document. Nonetheless, in the event of unforeseen circumstances impeding the achievement of these targets, the following exit strategies have been put in place:

1. To conduct necessary truck performance assessment, in order to determine its current capacity, efficiency and market value. This will inform its selling price.
2. Free consoles/bins to be procured in line with business needs
3. Current customer take-ups could be transferred to eligible competitors, perhaps for a broker's fee

For simplicity, the entirety of the service assets could be sold on to an eligible competitor. In that case, it is proposed that the Management Board constitutes an assets transfer action group to lead on this.



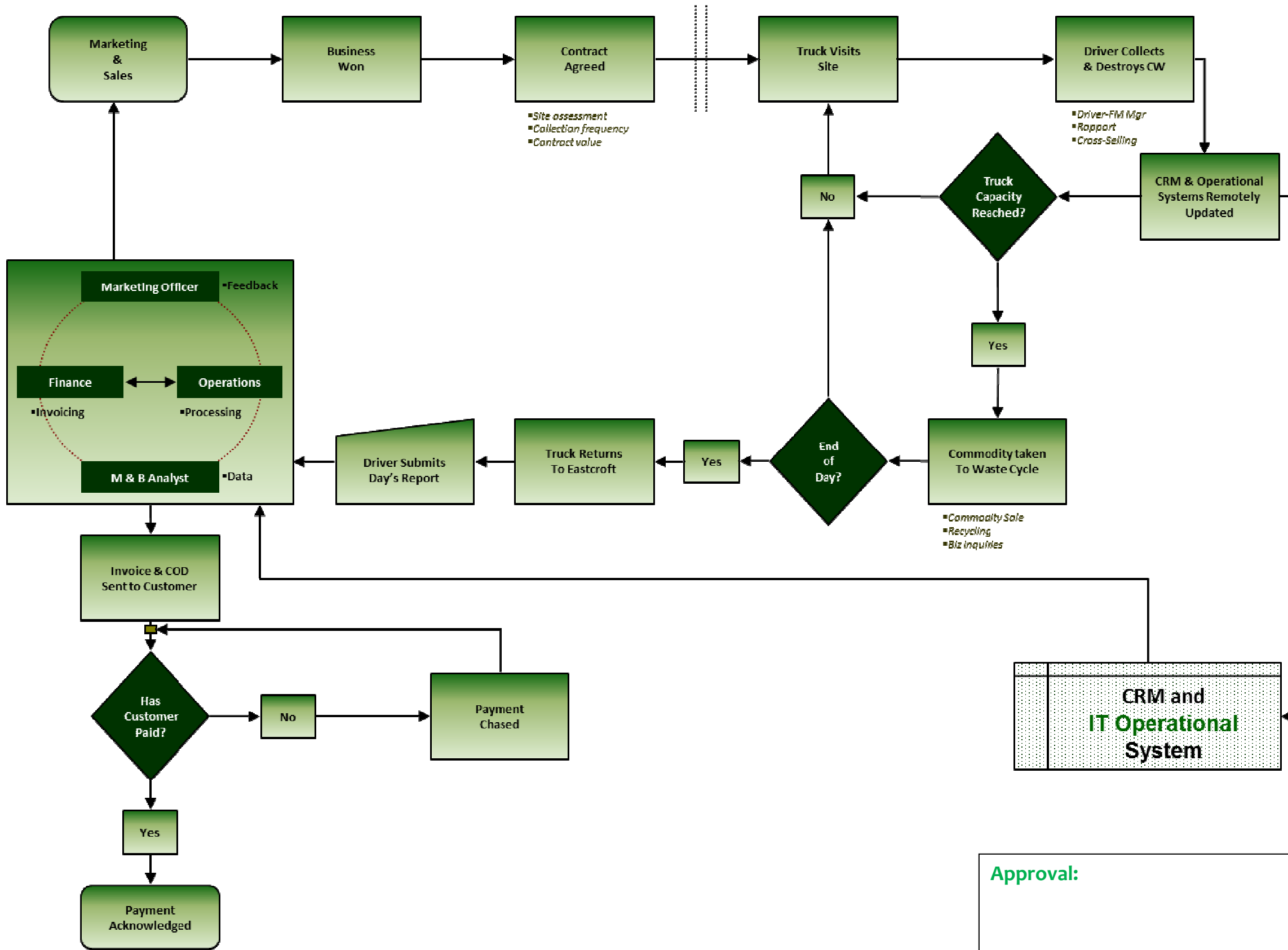


Figure 8.3: Proposed process flow for Nottingham City Council confidential waste service.

**Approval:**

.....

**Management Board** **Date**  
 Commercial and Neighbourhood Services

## 9.0 RECOMMENDATIONS

Consequent upon findings from market research and financial analyses completed; the following recommendations are hereby made in order to achieve the proposed redesign objectives for the CW service.

1. That the NCC CW service redesign proposal is approved.
2. That the confidential waste implementation actions document be approved.

**(Please find attached the Implementation Actions Document).**

**Approved:**

**Date:**

.....  
**Management Board**  
*Commercial and Neighbourhood Services*

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## APPENDIX 1

**Scenario 1a:** New truck and higher limit estimate - extra income from commodity sales.

Year	0	1	2	3	4	5	6	7	Total
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	182,500								182,500
Certification Expense	1,560								1,560
Secure Consoles	1,646								1,646
Optimism Bias	18,571								18,571
<b>Total Capital costs</b>	<b>204,277</b>								<b>204,277</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	27,000
Recruitment Costs	1,000	0	0	0	0	0	0	0	1,000
Other Operating Expenses	1,000	0	0	0	0	0	0	0	1,000
Vehicle Operating Expenses	0	17,148	25,885	34,621	45,856	63,643	61,940	69,947	319,041
Staffing Costs		21,056	21,477	21,907	21,907	21,907	21,907	21,907	152,067
Optimism Bias	800	4,120	5,036	5,953	7,076	8,855	8,685	9,485	50,011
Borrowing costs		31,842	31,842	31,842	31,842	31,842	31,842	31,842	222,895
<b>Total Revenue Expenditure</b>	<b>8,800</b>	<b>77,167</b>	<b>87,241</b>	<b>97,323</b>	<b>109,681</b>	<b>129,247</b>	<b>127,374</b>	<b>136,181</b>	<b>773,014</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45,874	-97,130	-148,385	-222,842	-273,807	-324,772	-375,738	-1,488,548
Revenue from commodity sales - Paper		-3,303	-6,993	-10,684	-16,045	-19,714	-23,384	-27,053	-107,175
<b>Total Income</b>	<b>0</b>	<b>-49,177</b>	<b>-104,123</b>	<b>-159,069</b>	<b>-238,887</b>	<b>-293,521</b>	<b>-348,156</b>	<b>-432,791</b>	<b>-1,625,723</b>
<b>NET Income / Expenditure</b>	<b>8,800</b>	<b>27,989</b>	<b>-16,882</b>	<b>-61,746</b>	<b>-129,205</b>	<b>-164,274</b>	<b>-220,782</b>	<b>-296,609</b>	<b>-852,710</b>
<b>NET Income (assume no borrowing)</b>	<b>213,077</b>	<b>-3,853</b>	<b>-48,724</b>	<b>-93,588</b>	<b>-161,047</b>	<b>-196,116</b>	<b>-252,625</b>	<b>-328,452</b>	<b>-871,328</b>
Discount factor - 5.57%	1	0.947	0.897	0.850	0.805	0.763	0.722	0.684	
<b>Discounted Cashflow</b>	<b>213,077</b>	<b>-3,650</b>	<b>-43,718</b>	<b>-79,542</b>	<b>-129,656</b>	<b>-149,559</b>	<b>-182,487</b>	<b>-224,744</b>	<b>-600,279</b>
<b>Net Present Value</b>		<b>-£600,279</b>							<b>Positive</b>

## APPENDIX 2

**Scenario 1c: New truck and lower limit estimate – commodity disposal paid for.**

Year	0	1	2	3	4	5	6	7	Total
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	182,500								182,500
Certification Expense	1,560								1,560
Secure Consoles	1,646								1,646
Optimism Bias	18,571								18,571
<b>Total Capital costs</b>	<b>204,277</b>								<b>204,277</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	27,000
Recruitment Costs	1,000	0	0	0	0	0	0	0	1,000
Other Operating Expenses	1,000	0	0	0	0	0	0	0	1,000
Vehicle Operating Expenses	0	17,148	25,885	34,621	45,856	63,643	61,940	69,947	319,041
Staffing Costs		21,056	21,477	21,907	21,907	21,907	21,907	21,907	152,067
Optimism Bias	800	4,120	5,036	5,953	7,076	8,855	8,685	9,485	50,011
Borrowing costs		31,842	31,842	31,842	31,842	31,842	31,842	31,842	222,895
<b>Total Revenue Expenditure</b>	<b>8,800</b>	<b>77,167</b>	<b>87,241</b>	<b>97,323</b>	<b>109,681</b>	<b>129,247</b>	<b>127,374</b>	<b>136,181</b>	<b>773,014</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45,874	-97,130	-148,385	-222,842	-273,807	-324,772	-375,738	-1,488,548
Revenue from commodity sales - Paper		4,129	8,742	13,355	20,056	24,643	29,230	33,816	133,969
<b>Total Income</b>	<b>0</b>	<b>-41,746</b>	<b>-88,388</b>	<b>-135,030</b>	<b>-202,786</b>	<b>-249,165</b>	<b>-295,543</b>	<b>-371,921</b>	<b>-1,384,579</b>
<b>NET Income / Expenditure</b>	<b>8,800</b>	<b>35,421</b>	<b>-1,147</b>	<b>-37,708</b>	<b>-93,105</b>	<b>-119,917</b>	<b>-168,169</b>	<b>-235,740</b>	<b>-611,565</b>
<b>NET Income (assume no borrowing)</b>	<b>213,077</b>	<b>3,579</b>	<b>-32,989</b>	<b>-69,550</b>	<b>-124,947</b>	<b>-151,760</b>	<b>-200,011</b>	<b>-267,582</b>	<b>-630,183</b>
Discount factor - 5.57%	1	0.947	0.897	0.850	0.805	0.763	0.722	0.684	
<b>Discounted Cashflow</b>	<b>213,077</b>	<b>3,390</b>	<b>-29,600</b>	<b>-59,112</b>	<b>-100,592</b>	<b>-115,732</b>	<b>-144,481</b>	<b>-183,094</b>	<b>-416,144</b>
<b>Net Present Value</b>									<b>-£416,144 Positive</b>

## APPENDIX 3

**Scenario 2a:** Two used trucks and higher limit estimate – with extra income from commodity sales.

Year	0	1	2	3	4	5	6	7	Total
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	114000				114000				228000
Certification Expense	1560				1560				3120
Secure Consoles	1646								1646
Contingency	11721				11556				23277
<b>Total Capital costs</b>	<b>128927</b>				<b>127116</b>				<b>256043</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6000	3000	3000	3000	3000	3000	3000	3000	27000
Recruitment Costs	1000	0	0	0	0	0	0	0	1000
Other Operating Expenses	1000	0	0	0	0	0	0	0	1000
Vehicle Operating Expenses		17548	26685	35531	58275	54043	61940	69947	323970
Staffing Costs		21056	21477	21907	21907	21907	21907	21907	152067
Contingency	800	4160	5116	6044	8318	7895	8685	9485	50504
Borrowing costs		38452	38452	38452	38555	38658	38658	38658	269885
<b>Total Revenue Expenditure</b>	<b>8800</b>	<b>84217</b>	<b>94731</b>	<b>104934</b>	<b>130055</b>	<b>125503</b>	<b>134189</b>	<b>142997</b>	<b>825425</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45874	-97130	-148385	-222842	-273807	-324772	-375738	-1488548
Revenue from commodity sales - Paper		-3303	-6993	-10684	-16045	-19714	-23384	-27053	-107175
<b>Total Income</b>	<b>0</b>	<b>-49177</b>	<b>-104123</b>	<b>-159069</b>	<b>-268887</b>	<b>-293521</b>	<b>-348156</b>	<b>-432791</b>	<b>-1655723</b>
<b>NET Income / Expenditure</b>	<b>8800</b>	<b>35039</b>	<b>-9392</b>	<b>-54135</b>	<b>-138832</b>	<b>-168019</b>	<b>-213967</b>	<b>-289794</b>	<b>-830298</b>
<b>NET Income / Expenditure (assume no borrowing)</b>	<b>137727</b>	<b>-3413</b>	<b>-47844</b>	<b>-92587</b>	<b>-50270</b>	<b>-206676</b>	<b>-252625</b>	<b>-328452</b>	<b>-844140</b>
Discount factor - 5.57%	1	0.947	0.897	0.850	0.805	0.763	0.722	0.684	
<b>Discounted Cashflow</b>	<b>137727</b>	<b>-3233</b>	<b>-42929</b>	<b>-78692</b>	<b>-40472</b>	<b>-157612</b>	<b>-182487</b>	<b>-224744</b>	<b>-592440</b>
<b>Net Present Value</b>		<b>-£592,440</b>	Positive						

## APPENDIX 4

**Scenario 2b:** Two used trucks and mid limit estimate – No income from commodity disposal.

Year	0	1	2	3	4	5	6	7	Total
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	114000				114000				228000
Certification Expense	1560				1560				3120
Secure Consoles	1646								1646
Contingency	11721				11556				23277
<b>Total Capital costs</b>	<b>128927</b>				<b>127116</b>				<b>256043</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6000	3000	3000	3000	3000	3000	3000	3000	27000
Recruitment Costs	1000	0	0	0	0	0	0	0	1000
Other Operating Expenses	1000	0	0	0	0	0	0	0	1000
Vehicle Operating Expenses		17548	26685	35531	58275	54043	61940	69947	323970
Staffing Costs		21056	21477	21907	21907	21907	21907	21907	152067
Contingency	800	4160	5116	6044	8318	7895	8685	9485	50504
Borrowing costs		38452	38452	38452	38555	38658	38658	38658	269885
<b>Total Revenue Expenditure</b>	<b>8800</b>	<b>84217</b>	<b>94731</b>	<b>104934</b>	<b>130055</b>	<b>125503</b>	<b>134189</b>	<b>142997</b>	<b>825425</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45874	-97130	-148385	-222842	-273807	-324772	-375738	-1488548
Revenue from commodity sales - Paper		0	0	0	0	0	0	0	0
<b>Total Income</b>	<b>0</b>	<b>-45874</b>	<b>-97130</b>	<b>-148385</b>	<b>-252842</b>	<b>-273807</b>	<b>-324772</b>	<b>-405738</b>	<b>-1548548</b>
<b>NET Income / Expenditure</b>	<b>8800</b>	<b>38342</b>	<b>-2399</b>	<b>-43451</b>	<b>-122787</b>	<b>-148305</b>	<b>-190583</b>	<b>-262741</b>	<b>-723123</b>
<b>NET Income / Expenditure (assume no borrowing)</b>	<b>137727</b>	<b>-110</b>	<b>-40851</b>	<b>-81903</b>	<b>-34226</b>	<b>-186962</b>	<b>-229241</b>	<b>-301398</b>	<b>-736965</b>
<b>Discount factor - 5.57%</b>	<b>1</b>	<b>0.947</b>	<b>0.897</b>	<b>0.850</b>	<b>0.805</b>	<b>0.763</b>	<b>0.722</b>	<b>0.684</b>	
<b>Discounted Cashflow</b>	<b>137727</b>	<b>-104</b>	<b>-36654</b>	<b>-69611</b>	<b>-27554</b>	<b>-142578</b>	<b>-165596</b>	<b>-206233</b>	<b>-510603</b>
<b>Net Present Value</b>		<b>-£510,603</b>							<b>Positive</b>

## APPENDIX 5

**Scenario 2c:** Two used trucks and lower limit estimate - disposal of commodity is paid for.

Year	0	1	2	3	4	5	6	7	Total
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	114000				114000				228000
Certification Expense	1560				1560				3120
Secure Consoles	1646								1646
Contingency	11721				11556				23277
<b>Total Capital costs</b>	<b>128927</b>				<b>127116</b>				<b>256043</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6000	3000	3000	3000	3000	3000	3000	3000	27000
Recruitment Costs	1000	0	0	0	0	0	0	0	1000
Other Operating Expenses	1000	0	0	0	0	0	0	0	1000
Vehicle Operating Expenses		17548	26685	35531	58275	54043	61940	69947	323970
Staffing Costs		21056	21477	21907	21907	21907	21907	21907	152067
Contingency	800	4160	5116	6044	8318	7895	8685	9485	50504
Borrowing costs		38452	38452	38452	38555	38658	38658	38658	269885
<b>Total Revenue Expenditure</b>	<b>8800</b>	<b>84217</b>	<b>94731</b>	<b>104934</b>	<b>130055</b>	<b>125503</b>	<b>134189</b>	<b>142997</b>	<b>825425</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45874	-97130	-148385	-222842	-273807	-324772	-375738	-1488548
Revenue from commodity sales - Paper		4129	8742	13355	20056	24643	29230	33816	133969
<b>Total Income</b>	<b>0</b>	<b>-41746</b>	<b>-88388</b>	<b>-135030</b>	<b>-232786</b>	<b>-249165</b>	<b>-295543</b>	<b>-371921</b>	<b>-1414579</b>
<b>NET Income / Expenditure</b>	<b>8800</b>	<b>42471</b>	<b>6343</b>	<b>-30096</b>	<b>-102731</b>	<b>-123662</b>	<b>-161354</b>	<b>-228924</b>	<b>-589154</b>
<b>NET Income / Expenditure (assume no borrowing)</b>	<b>137727</b>	<b>4019</b>	<b>-32109</b>	<b>-68549</b>	<b>-14170</b>	<b>-162320</b>	<b>-200011</b>	<b>-267582</b>	<b>-602995</b>
<b>Discount factor - 5.57%</b>	<b>1</b>	<b>0.947</b>	<b>0.897</b>	<b>0.850</b>	<b>0.805</b>	<b>0.763</b>	<b>0.722</b>	<b>0.684</b>	
<b>Discounted Cashflow</b>	<b>137727</b>	<b>3807</b>	<b>-28810</b>	<b>-58261</b>	<b>-11408</b>	<b>-123785</b>	<b>-144481</b>	<b>-183094</b>	<b>-408306</b>
<b>Net Present Value</b>	<b>-£408,306 Positive</b>								



## APPENDIX 6

**Scenario 3a:** One used truck and higher limit estimate – with extra income from commodity sales.

Year	0	1	2	3	4	5	6	7	Total
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	114000				0				114000
Certification Expense	1560				0				1560
Secure Consoles	1646								1646
Contingency	11721				0				11721
<b>Total Capital costs</b>	<b>128927</b>				<b>0</b>				<b>128927</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6000	3000	3000	3000	3000	3000	3000	3000	27000
Recruitment Costs	1000	0	0	0	0	0	0	0	1000
Other Operating Expenses	1000	0	0	0	0	0	0	0	1000
Vehicle Operating Expenses		17548	26685	35531	51256	69043	66940	74947	341951
Staffing Costs		21056	21477	21907	21907	21907	21907	21907	152067
Contingency	800	4160	5116	6044	7616	9395	9185	9985	52302
Borrowing costs		20097	20097	20097	20097	20097	20097	20097	140678
<b>Total Revenue Expenditure</b>	<b>8800</b>	<b>65861</b>	<b>76375</b>	<b>86578</b>	<b>103876</b>	<b>123442</b>	<b>121128</b>	<b>129936</b>	<b>715997</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45874	-97130	-148385	-222842	-273807	-324772	-375738	-1488548
Revenue from commodity sales - Paper		-3303	-6993	-10684	-16045	-19714	-23384	-27053	-107175
<b>Total Income</b>	<b>0</b>	<b>-49177</b>	<b>-104123</b>	<b>-159069</b>	<b>-238887</b>	<b>-293521</b>	<b>-348156</b>	<b>-412791</b>	<b>-1605723</b>
<b>NET Income / Expenditure</b>	<b>8800</b>	<b>16684</b>	<b>-27748</b>	<b>-72490</b>	<b>-135011</b>	<b>-170080</b>	<b>-227028</b>	<b>-282855</b>	<b>-889726</b>
<b>NET Income / Expenditure (assume no borrowing)</b>	<b>137727</b>	<b>-3413</b>	<b>-47844</b>	<b>-92587</b>	<b>-155107</b>	<b>-190176</b>	<b>-247125</b>	<b>-302952</b>	<b>-901477</b>
Discount factor - 5.57%	1	0.947	0.897	0.850	0.805	0.763	0.722	0.684	
<b>Discounted Cashflow</b>	<b>137727</b>	<b>-3233</b>	<b>-42929</b>	<b>-78692</b>	<b>-124874</b>	<b>-145029</b>	<b>-178514</b>	<b>-207295</b>	<b>-642838</b>
<b>Net Present Value</b>	<b>-£642,838 Positive</b>								

## APPENDIX 7

**Scenario 3b:** One used truck and mid limit estimate – no income from commodity disposal.

Year	0	1	2	3	4	5	6	7	Total
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	114000				0				114000
Certification Expense	1560				0				1560
Secure Consoles	1646								1646
Contingency	11721				0				11721
<b>Total Capital costs</b>	<b>128927</b>				<b>0</b>				<b>128927</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6000	3000	3000	3000	3000	3000	3000	3000	27000
Recruitment Costs	1000	0	0	0	0	0	0	0	1000
Other Operating Expenses	1000	0	0	0	0	0	0	0	1000
Vehicle Operating Expenses		17548	26685	35531	51256	69043	66940	74947	341951
Staffing Costs		21056	21477	21907	21907	21907	21907	21907	152067
Contingency	800	4160	5116	6044	7616	9395	9185	9985	52302
Borrowing costs		20097	20097	20097	20097	20097	20097	20097	140678
<b>Total Revenue Expenditure</b>	<b>8800</b>	<b>65861</b>	<b>76375</b>	<b>86578</b>	<b>103876</b>	<b>123442</b>	<b>121128</b>	<b>129936</b>	<b>715997</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45874	-97130	-148385	-222842	-273807	-324772	-375738	-1488548
Revenue from commodity sales - Paper		0	0	0	0	0	0	0	0
<b>Total Income</b>	<b>0</b>	<b>-45874</b>	<b>-97130</b>	<b>-148385</b>	<b>-222842</b>	<b>-273807</b>	<b>-324772</b>	<b>-385738</b>	<b>-1498548</b>
<b>NET Income / Expenditure</b>	<b>8800</b>	<b>19987</b>	<b>-20754</b>	<b>-61807</b>	<b>-118966</b>	<b>-150365</b>	<b>-203644</b>	<b>-255802</b>	<b>-782551</b>
<b>NET Income / Expenditure (assume no borrowing)</b>	<b>137727</b>	<b>-110</b>	<b>-40851</b>	<b>-81903</b>	<b>-139063</b>	<b>-170462</b>	<b>-223741</b>	<b>-275898</b>	<b>-794302</b>
Discount factor - 5.57%	1	0.947	0.897	0.850	0.805	0.763	0.722	0.684	
<b>Discounted Cashflow</b>	<b>137727</b>	<b>-104</b>	<b>-36654</b>	<b>-69611</b>	<b>-111956</b>	<b>-129995</b>	<b>-161623</b>	<b>-188784</b>	<b>-561000</b>
<b>Net Present Value</b>	<b>-£561,000 Positive</b>								

## APPENDIX 8

**Scenario 3c:** One used truck and lower limit estimate – commodity disposal is paid for.

Year	0	1	2	3	4	5	6	7	Total
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
<b>Expenditure</b>									
<b>Capital Expenditure</b>									
Cost of Vehicle	114000				0				114000
Certification Expense	1560				0				1560
Secure Consoles	1646								1646
Contingency	11721				0				11721
<b>Total Capital costs</b>	<b>128927</b>				<b>0</b>				<b>128927</b>
<b>Cash Flow</b>									
<b>Revenue Expenditure (£)</b>									
Marketing	6000	3000	3000	3000	3000	3000	3000	3000	27000
Recruitment Costs	1000	0	0	0	0	0	0	0	1000
Other Operating Expenses	1000	0	0	0	0	0	0	0	1000
Vehicle Operating Expenses		17548	26685	35531	51256	69043	66940	74947	341951
Staffing Costs		21056	21477	21907	21907	21907	21907	21907	152067
Contingency	800	4160	5116	6044	7616	9395	9185	9985	52302
Borrowing costs		20097	20097	20097	20097	20097	20097	20097	140678
<b>Total Revenue Expenditure</b>	<b>8800</b>	<b>65861</b>	<b>76375</b>	<b>86578</b>	<b>103876</b>	<b>123442</b>	<b>121128</b>	<b>129936</b>	<b>715997</b>
<b>Income (£)</b>									
Cash receipts from Pick ups - by weight		-45874	-97130	-148385	-222842	-273807	-324772	-375738	-1488548
Revenue from commodity sales - Paper		4129	8742	13355	20056	24643	29230	33816	133969
<b>Total Income</b>	<b>0</b>	<b>-41746</b>	<b>-88388</b>	<b>-135030</b>	<b>-202786</b>	<b>-249165</b>	<b>-295543</b>	<b>-351921</b>	<b>-1364579</b>
<b>NET Income / Expenditure</b>	<b>8800</b>	<b>24116</b>	<b>-12013</b>	<b>-48452</b>	<b>-98910</b>	<b>-125723</b>	<b>-174415</b>	<b>-221985</b>	<b>-648582</b>
<b>NET Income / Expenditure (assume no borrowing)</b>	<b>137727</b>	<b>4019</b>	<b>-32109</b>	<b>-68549</b>	<b>-119007</b>	<b>-145820</b>	<b>-194511</b>	<b>-242082</b>	<b>-660332</b>
Discount factor - 5.57%	1	0.947	0.897	0.850	0.805	0.763	0.722	0.684	
<b>Discounted Cashflow</b>	<b>137727</b>	<b>3807</b>	<b>-28810</b>	<b>-58261</b>	<b>-95810</b>	<b>-111202</b>	<b>-140508</b>	<b>-165645</b>	<b>-458703</b>
<b>Net Present Value</b>	<b>-£458,703 Positive</b>								

## APPENDIX 9

### Legal Consultation Outcome

#### City Boundaries

I would advise that confidential waste would fall within the statutory definition of Commercial Waste under the Environmental Protection Act 1990 in that it is ‘*waste from premises used wholly or mainly for the purpose of a trade or business....*’. When collecting such waste within the Council’s administrative boundaries we act as the Waste Collection Authority and in collecting waste as a WCA we can recover our reasonable charges. I would suggest that this goes beyond a straight recovery of charges and could have a slight top up. It does not give you the freedom to charge what you want but it gives a flexibility in setting costs based on what is reasonable – which could arguably include having consideration of the market within the administrative area.

So, for all collection of confidential waste within the City you could have a reasonable recovery of charges regardless of the status of the organisation.

#### Outside of the City Boundaries

When you operate outside of the City Boundaries you are no longer acting as a WCA and therefore you cannot rely on the charging mechanism as set out above.

Instead you would revert back to the local government powers to charge under s.93 Local Government Act 2003 and s.3 Localism Act 2011. Under these acts your charges for the services cannot exceed the cost of provision. Therefore you can only recover your costs.

Under the Local Authorities (Goods and Services) Act 1970 the parties may agree to whatever charges they want in the provision of services. However, I would consider exercising caution on relying on this provision as it refers to providing administrative, professional or technical services. It could be argued that what is being proposed does not fall within that definition. Also, you would want to consider from a reputational point of view how it would look if you charge a public body more than you would charge a private organisation.

Finally, if any of the local authorities outside of the City provide a confidential waste service currently and the City Council offered to deliver that service on their behalf then I would advise that the Council would have to consider its legal position in regard to acting as an agent for another Waste Collection Authority and thereby being subject to the directions of the Waste Disposal Authority (being the County). The City Council could not rely on its own disposal arrangements as a Waste Disposal Authority.

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## GLOSSARY

CW	Confidential waste
DIY Market	Section of the market that destroys its CWs in-house
ICO	Information Commissioner's Office
Lead	New prospect generated by marketing campaign
Quote	A formal or informal proposal for sales transaction
Wins	New customers/contracted generated via sales efforts
PSO	Public Sector Organisation