

TRAFFORD COUNCIL

Report to: Executive Member for Highways, Parks & Environmental Services
Date: 18 December 2017
Report for: Decision
Report of: Chief Finance Officer

Report Title

Consideration of the Greater Manchester Waste Disposal Levy Allocation Methodology and Approval of a Revised Levy Allocation Model Agreement

Summary

The current arrangements for the disposal of household waste in Greater Manchester (save for Wigan) were established in 2009 with the signing of the Recycling and Waste Management (PFI) Contract (the PFI Contract) with Viridor Laing (Greater Manchester) limited (VLGM). The GMWDA acquired VLGM (for £1) in October 2017 which will allow existing arrangements to be formally terminated so as to address issues that had arisen within the operation of the Contract and to enable significant efficiency savings to be released. The current IAA, which was signed by all Districts in 2009, falls away with the termination of the PFI Contract and it is therefore necessary to reconsider the Levy apportionment within GM and for all Districts to approve and enter into a revised Levy Allocation Methodology Agreement (LAMA) which reflects the new arrangements. That Agreement is designed to apply for 10 years, and would be applied in full for the 2019/20 financial year onwards, with transitional arrangements being proposed for the financial year 2018/19.

Recommendation(s)

That, having considered the proposed revised methodology, the revised Levy Apportionment Methodology Agreement be approved, which is being applied in full from 2019/20 with transitional arrangements in place during 2018/19.

That authority be delegated to the Director of Legal Services or his/her nominee to approve and/ or make any minor amendments to the final Levy Apportionment Methodology Agreement, a current draft of which is appended, and to enter into and finalise the Agreement, the transitional arrangements, and any associated documentation relating thereto.

That this matter be considered urgent and not subject to call in.

Contact person for access to background papers and further information:

Name: Nikki Bishop
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Background papers: None
Appendix: Current draft LAMA

Implications:

Relationship to Policy Framework/Corporate Priorities	Low Council Tax and Value for Money
Financial	Whilst the report shows a cost increase for Trafford Council as a result of this change this is based on the predicted tonnages for 2017/18 as submitted earlier this year and these are likely to be subject to revision in the December 2017 submission. It should be noted that if the PFI changes had not been made the increases facing Trafford Council would be far greater.
Legal Implications:	Legal comments are included in the report
Equality/Diversity Implications	Not applicable
Sustainability Implications	Not applicable
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	Not applicable
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

1.0 Background

1.1 The Greater Manchester Waste Disposal Authority (GMWDA) was established on 1st January 1986 as a Statutory Joint Waste Disposal Authority (JWDA) by the Waste Regulation and Disposal (Authorities) Order 1985. The Authority began to carry out its functions on 1st April 1986, following the abolition of the Greater Manchester County Council. The GMWDA is responsible for the disposal of waste collected by the constituent Waste Collection Authorities, for the provision and maintenance of household waste recycling facilities and for compliance with recycling requirements.

1.2 The GMWDA is a levying body. In February 2009 the GMWDA and its nine constituent councils, entered into an Inter Authority Agreement (IAA) regulating the levy. The IAA was entered into pursuant to the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006 (SI 2006/248).

1.3 The existing IAA was agreed unanimously by all constituent Districts as part of a suite of documents at the time the PFI Contract was adopted in 2009. That moved the Levy allocation method to one that supported Greater Manchester's commitment to both the four waste stream collection system and also to incentivise recycling. That IAA was designed to stay in place for the duration of the Recycling and Waste Management (PFI) Contract arrangements with VLGM,

to 2034, but has a provision that it would 'fall away' on termination of the PFI. A new locally agreed basis to apportion the Levy is therefore needed to be applied from the 2018/19 financial year onwards.

1.4 It is considered that the IAA should be revised to address a number of issues that have arisen as a result of the current methodology:

- a) the cost of residual waste is now set at punitive levels. That in turn means that IAA tonnage declarations are not always as accurate as they should be;
- b) due to changes in income levels for recyclates there is now a subsidy on both the paper/ card (pulpables) and cans/ plastic bottles/ glass (commingled) recycling waste streams, which is added to the cost of residual waste.
- c) The IAA exaggerates the benefits for one District, over wider savings and benefits for the conurbation;
- d) there is a lack of transparency; and
- e) a number of perverse results are caused by application of bandings.

1.5 All constituent Districts have very recently reached the same capacity for residual waste collections. This therefore provides an opportunity, along with the new operating contract(s) arrangements, to move to a different and more stable agreement.

2 Current Position

2.1 Following extensive consultation with Districts the GMWDA made a decision to terminate the existing PFI arrangements in order to reduce costs and to attain operational improvements in order to fulfill the required budget savings.

2.2 Upon Termination of the PFI the existing IAA becomes obsolete. Once the PFI Contract is formally terminated in accordance with the decision to this effect, the existing IAA will no longer be binding, and a new IAA must be unanimously agreed by all nine constituent Districts. Failure to agree a new methodology will result in the national default mechanism being applied. That default position allocates cost based upon a mixture of Council Tax Base and overall tonnages. All District Treasurers and Waste Chief Officers recognise that the default basis would not deliver either our savings or environmental aspirations.

2.3 Accordingly, an extensive and inclusive process of consultation has now been concluded within Greater Manchester about the replacement process and set out below are the broad proposals for the new levy allocation methodology agreement.

3 Proposals

3.1 The key design characteristics for a 10 year duration LAMA and reasoning for their inclusion in the methodology are set out in the table below:

A. District Collected Waste_ (c £136m, 78.6% of net costs)	
<p>1. Retain 4 waste stream approach, based upon:-</p> <ul style="list-style-type: none"> i. Commingled/pulpables (as one); ii. Organics (food and Garden); iii. Trade Waste, and iv. Residual Waste. <p>2. Retain year-end adjustments for tonnages (introduced from 2017/18). Adjustments to be at a pre-agreed annual rate, reflecting marginal processing costs (subject to items A3 below).</p> <p>3. Allocate costs on the basis of an Apportionment Model (AM) which comprises:-</p> <ul style="list-style-type: none"> i. fixed element (i.e. are related to costs which do not vary, such as debt charges). These will be allocated to Districts based on adjusted¹ 2017/18 actual tonnages, and will be reviewed after 5 years for 2022/23 ii. variable costs – which reflect marginal 	<p>To Reflect collection working practices and to ensure costs and environmental benefits from recycling improvements remain.</p> <p>Ensures a direct link to performance and encourages direct link to benefits of improving recycling performance. Marginal costs are used to match any cost/reductions at a District level with broadly corresponding changes in costs paid to the providing contractor.</p> <p>Increases transparency and stops a mere cost reallocation exercise (as changes in levy are broadly matched by corresponding changes in costs paid to the contractors). Also provides a more stable budget position year on year at district level.</p>

¹ An adjustment may be made to Salford and Trafford figures (only) to reflect the part year impact of reduced waste capacity roll out and potential impact of charging for Garden Waste (respectively).

	<p>processing cost.</p> <p>4. For Districts whose recycling falls below 1% of current levels, residual waste to be charged at full cost (i.e. fixed and variable). The 1% assessment to be from the 2017/18 base position.</p> <p>5. Common assumptions to be used in tonnage estimates.</p>	<p>This provision ensures that one District cannot adversely impact others by reducing its recycling efforts. 1% variation is proposed to reflect seasonality/past changes etc. (i.e. not a hair trigger) and to have an exception override (to the GMCA Treasurer) in case of exceptional circumstances</p> <p>This provision ensures that all future year increases are based upon common factors, such as expected changes in housing type/numbers and population. It will also ensure re-procurement facilities/capacity are correctly sized.</p>
<p>B. Household Waste Recycling Centres (HWRC) (c. £31m, 17.9% of net costs)</p>		
	<p>Cost allocation moved to be based upon:</p> <ul style="list-style-type: none"> i. 50% Council Tax Base ii. 50% Car Ownership (2011 Office of National Statistics census) but subject to a survey of users (in 2018/19) to establish the district in which they live. 	<p>Move is away from 100% based on Council Tax Base and better reflects that usage will be linked to access by cars.</p> <p>To allay any concern that these 'proxy' measures may still not reflect usage there is a proposed review, following a survey of uses, in the 2018/19 financial year (as part of the Waste Composition Analysis work stream).</p>
<p>C: Authority Own costs (c. £5m, 2.9% of net costs) – including direct costs (such as salaries/running costs)</p>		
	<p>Equal share</p>	<p>Costs do not vary significantly by activity, and are thus linked to an 11.1% each District allocation basis.</p>
<p>D: Non-Key Services (c. £1m, 0.6% of net costs) – this comprises specialised waste services, such as asbestos, plasterboard, clinical waste, dog waste, etc.</p>		
	<p>Waste arisings</p>	<p>No change from the</p>

		existing basis. It is intended that the majority of 'regular' waste will in future be included in the re-procured contracts and thus the value of this will fall further.			
3.3	District tonnages need to be revised on an annual basis, to reflect changes in both volumes and in the level of recycling that local residents are achieving. In previous years an inconsistent approach has been taken to those projections, particularly in relation to the possible impacts of population and housing growth. Through the Waste Chief Officers Group, led by Bolton Council, a common approach to growth has been adopted, and has been included in the projections for future years levy. That approach has advantages both in projecting future requirements (for the new operating contracts) and also in minimising the potential for significant in-year fluctuations (which are now a district level risk). Figures used in projections thus take account of 5 months actuals, which is essential given the scope of collection changes made in the last 12 months by many districts, but will still require further refinement and challenge before being finalised in December 2017.				
3.4	Based on the revised LAM principles (para. 3.2), and updated tonnages (para. 3.3) the impact on the 2019/20 financial year would be: -				
	District	Sept 2017 projected levy requirement, revised LAM methodology and Sept 2017 tonnages	February 2017 projection (old IAA and Dec. 2016 tonnages)	Cost/ Saving due to tonnage changes	Cost/Saving due to levy allocation methodology changes
		£m	£m	£m	£m
	Bolton	20.430	20.534	-0.136	0.032
	Bury	14.076	13.879	-0.086	0.283
	Manchester	30.417	32.985	-0.955	-1.613
	Oldham	17.944	17.567	0.515	-0.138
	Rochdale	15.743	15.849	0.023	-0.129
	Salford	20.526	21.133	-0.132	-0.475
	Stockport	20.958	20.659	-0.196	0.495
	Tameside	15.524	13.951	0.357	1.216
	Trafford	16.858	15.721	0.579	0.558
	Total	<u>172.476</u>	<u>172.278</u>	<u>-0.031</u>	<u>0.229</u>
3.5	It is further proposed that, after taking account of tonnage changes year on year, that the levy allocation in 2018/19 be based upon a 'half the difference' (i.e. average of 2017/18 revised estimate and 2019/20 estimates) and will be adjusted at year end to reflect actual tonnages at the marginal tonnage rate change basis.				

3.6 Subject to the above methodology being approved it is necessary for each GM District to obtain formal agreement before the 31st December 2017 of the new LAM. That in turn will allow the 2018/19 Levy to be set by the GMWDA (8th February 2018) using the new LAM basis.

Options

- 4.1 To approve the proposed revised LAMA and the recommendations set out earlier in the report.
- 4.2 Not to approve the proposed revised IAA and request some alternative arrangement be developed and which would have to be approved by all constituent districts.
- 4.3 Do nothing, in which case the statutory default scheme will take effect.

5 Preferred Option

- 5.1 Option 3.1 is the preferred option as it has been provisionally approved by all districts following extensive consultation and is considered to be the most equitable, cost effective and environmentally friendly option

Consultation

There has been extensive consultation with all of the Districts affected.

Reasons for Recommendation

Following the decision to terminate the Recycling and Waste Management PFI Contract arrangements it is necessary for all constituent Districts to agree a new Levy which would replace the existing Inter Authority Agreement (IAA) with a revised Levy Allocation Methodology Agreement (LAMA) to reflect the revised financial arrangements to apply fully from 2019/20 financial year onwards with a year of transitional arrangements for the financial year 2018/19.

This decision is considered urgent as, taking into account the Christmas break, any delay likely to be caused by the call in process would prejudice the Council's ability to formally agree the new arrangement by 31 December 2017 as required by all the constituent Councils.

Key Decision Yes

If Key Decision, has 28-day notice been given? Yes

Finance Officer Clearance (type in initials)...NB.....

Legal Officer Clearance (type in initials)...JK.....

CORPORATE DIRECTOR'S SIGNATURE



To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.