

## Report to Council

# Levy Allocation Methodology Agreement

**Portfolio Holder:** Councillor A Ur-Rehman, Cabinet Member  
for Neighbourhood Services

**Officer Contact:** Carol Brown, Director of Environmental Services

**Report Author:** Carol Brown, Director of Environmental Services  
and Anne Ryans, Director of Finance  
**Ext.** 4452

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### Reason for Decision

This report is to provide an update on the Levy Allocation Methodology Agreement.

### Executive Summary

The Waste Management Levy Allocation Methodology Agreement (LAMA) is a proposed 6-year agreement between the 9 District Authorities subject to the Combined Authority waste disposal arrangements to fairly allocate fixed and variable disposal costs through the levy.

A review of current methodology i.e. the Inter Authority Agreement (IAA) is deemed appropriate following the recent procurement exercise which resulted in a fundamentally revised contract to deliver waste disposal.

Agreement to the methodology is sought partially through the first year of a 7-year contract. There is the option to extend the contract by a further 3 years following a review with the contractor, Suez.

The LAMA, which appears in full in Appendix A, is the proposed method for allocating the Waste and Resources budget between the constituent Districts and replaces, for 2019/20, the current Inter Authority Agreement (IAA).

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This revised agreement has been subject to scrutiny by the Overview and Scrutiny Performance and Value for Money (PVFM) Select Committee at its meeting on 7 November 2019 and was considered and agreed by Cabinet on 18 November 2019.

Council must give formal approval to comply with the requirements of the Greater Manchester Combined Authority (GMCA).

### **Recommendations**

That the contents of this report are noted and that the Levy Allocation Methodology Agreement (LAMA) is accepted as the new agreement between the Greater Manchester Combined Authority.

**Levy Allocation Methodology Agreement**

**1 Background**

- 1.1 The Waste Management Levy Allocation Methodology Agreement (LAMA) is a 6-year agreement, being made partially through the first year of a 7-year contract. There is the option to extend the contract by 3 years following a review before the 7-year mark with Suez.
- 1.2 The LAMA is the method by which the costs attached to the operating contract for the acceptance, processing and disposal of residual waste, recyclables, pulpables, and green waste etc is dispersed in a fair and transparent way through the annual waste disposal levy.
- 1.3 The LAMA, which appears in full in Appendix A, is the proposed method for allocating the Waste and Resources budget between the nine constituent Districts and will replace, the current Inter Authority Agreement (IAA).

**2 Current Position**

- 2.1 The LAMA allocates the fixed and variable costs of the budget by waste stream, trade waste, Household Waste Recycling Centres (HWRCs) and GMCA – Waste and Resources’ own costs. Following the award of the contracts to Suez, this now needs to be revised to reflect the new payment mechanism arrangements.
- 2.2 The key changes and reasoning are:

<b>Change</b>	<b>Reason</b>
Introduction of new waste stream for street sweepings	The costs for this can be separately identified within the payment mechanism.
<p>Allocation of costs on the basis of an Apportionment Model which comprises:</p> <p>Fixed element (related to costs which do not vary). These will be allocated to Districts based on adjusted 2017/18 actual tonnages (as before) and will be reviewed and reset for 2022/23 or other such year as unanimously agreed between the parties.</p> <p>Variable costs – which reflects marginal processing cost (except for residual waste)</p>	<p>The allocation of costs split between fixed and variable costs is the same as the original LAMA. However, under the new contracts the actual total variable costs are much lower.</p> <p>The proposal for residual waste is to adopt a ‘last in, first out’ principle whereby the variable cost is broadly equated not to the average cost of residual processing but to the cost of the processing that would be used last. This is going to be the same as the price for Trade Waste.</p> <p>This price is felt to support the overriding savings and environmental aspirations of the GMCA and Districts.</p> <p>This may expose the GMCA to the risk of paying a levy adjustment to Districts for reduced tonnages that will not be matched by reduced costs. If such a risk materialises then future changes to the LAMA may be needed.</p>

	<p>The LAMA Variable Cost may include sums for recovery of any shortfall between levied variable costs and actual variable cost for the prior year.</p> <p>The reset year allows for any changes to deliveries of waste from 2017/18 to be allocated and allowing a different year gives flexibility for any implications from the Defra Waste Strategy.</p>
Split variable rate for paper/card and commingled	The new contracts identify the variable cost of these waste streams separately.
<p>Levy Adjustment:</p> <p>Fix the rate for variations in tonnages at the start of the year and not amend the variable rate to actual cost at the end of the year.</p>	<p>This will allow Districts to monitor their budgets effectively and give greater certainty to cost.</p> <p>GMCA should be able to better manage the risk of changes to costs, e.g. from recycle income, at a central level.</p> <p>As above, this may expose the GMCA to the risk of reimbursing a District for reduced tonnages that will not be matched by reduced costs.</p>
<p>Household Waste Recycling Centres:</p> <p>Maintain at 50% Council Tax Base and 50% Car Ownership (2011 National Statistics census)</p>	A survey of users was conducted as part of the Waste Composition Analysis but was not considered to be any more representative than the current methodology.
<p>Council Tax Base (CTB):</p> <p>Use the prior year CTB</p>	<p>Only small sum allocated by CTB. 50% of HWRC costs = c.£15m</p> <p>This will enable the Waste levy to be set before end of January and stop last minute minor changes</p>
Non-Key Services	This element will be removed as there is no specific charge within the current payment mechanisms.

- 2.3 To enable the budget setting process to take account of the potential waste levy costs agreement was required by each District to the revised allocation mechanism by the 31 December 2019. Due to the General Election and the reorganisation of meetings, the timeframe has been extended to early January (hence consideration at this Council meeting). The proposed 2020/21 levy will then be allocated as per the LAMA.

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- 2.4 Greater Manchester Chief Officers and Treasurers have discussed and agreed in principle the LAMA. (Appendix A)
- 2.5 Failure of a District to agree to the use of the LAMA principles as a replacement methodology for the current Inter Authority Agreement (IAA) will result in the default application of the IAA principles.
- 3 Conclusion**
- 3.1 The LAMA is the proposed methodology for allocating the Waste and Resources budget between the constituent Districts and replaces the 2018/19 the Inter Authority Agreement.
- 3.2 The key changes and the reasoning for the changes are detailed in section 2.2 of this report.
- 3.3 GM Treasurers and District Waste Chief Officers agree the proposal in principle.
- 4 Preferred Option**
- 4.1 To agree the proposed Levy Allocation Methodology Agreement as given at Appendix A.
- 5 Consultation**
- 5.1 The LAMA has been presented to each of the nine District Councils in order that agreement can be formally reached. In Oldham, the revised agreement has been subject to scrutiny by the Overview and Scrutiny (PVFM) Select Committee at its meeting on 7 November 2019 and was considered and agreed by Cabinet on 18 November 2019.
- 6 Financial Implications**
- 6.1 The LAMA determines the Councils allocation of the waste disposal levy. As the levy for 2019/20 agreed at Budget Council was £18.102m, even a small percentage variation to the allocation would have an impact on the budget of the Council.
- 6.2 A significant amount of work has taken place to produce an agreement that all 9 Councils can consider acceptable with input from Finance teams across Authorities.
- 6.3 The actual value of the Councils levy for 2020/21 will be determined by the overall costs of the GMCA, informed by the level of waste to be processed by each Authority, using the LAMA methodology. The agreement of the revised LAMA will enable a notification of indicative levy figures to inform 2020/21 budget setting.
- 7 Legal Services Comments**
- 7.1 The Levy Allocation Methodology Agreement is a financial model that is used to allocate cost between fixed, variable and GMCA costs in relation to the collection and disposal of GM waste and has been agreed between the relevant Authorities subject to formal approval.
- 7.2 The approval of the Agreement will enable the model to be put in place and provide certainty and clarity in terms of the cost of waste collection and disposal functions. (Colin Brittain)

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8	<b>Human Resources Comments</b>
8.1	N/A
9	<b>Risk Assessments</b>
9.1	N/A
10	<b>IT Implications</b>
10.1	N/A
11	<b>Property Implications</b>
11.1	None
12	<b>Key Decision</b>
12.1	Yes
13	<b>Key Decision Reference</b>
13.1	NEI-15-19
14	<b>Background Papers</b>
14.1	See below
15	<b>Appendices</b>
15.1	Appendix A – Waste Management Levy Allocation Methodology Agreement (LAMA)