

Report to COUNCIL

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

Portfolio Holder: Cllr B Brownridge, Cabinet Member for Cooperatives and Neighbourhoods and
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Reason for Decision

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 the 2019/20 financial year onwards with a year of transitional arrangements for the financial year 2018/19.

Executive 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 Greater Manchester Waste Disposal Authority (GMWDA) acquired VLGM (for £1) in October 2017. This 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.

This issue has been presented to Cabinet for consideration at its meeting on 11 December 2017 with a recommendation that commends Council to approve the proposed Levy Apportionment Methodology Agreement.

Recommendations

It is recommended that:

- 1) Having considered the proposed revised methodology, the revised Levy Apportionment Methodology Agreement be approved, being applied in full from 2019/20 with transitional arrangements in place during 2018/19.

- 2) Authority be delegated to the Director of Legal Services or his 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.

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1 Background

- 1.1 The Greater Manchester Waste Disposal Authority (GMWDA) was established on 1 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 1 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 VLG, 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 Whilst the original principles upon which the IAA were founded remain, in practice, 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 as follows:
 - 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) As a result of 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.

Proposed New Methodology

- 2.4 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, presented by:
 - A) District collected waste (c £136m or 78.7% of net costs)
 - B) Household Waste Recycling Centres (HWRC) (c. £31m, 17.9% of net costs)
 - C) Authority own costs (c. £5m, 2.9% of net costs) – including direct costs (such as salaries/running costs)
 - 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.

	A. District Collected Waste (c £136m, 78.6% of net costs)	
	Design Characteristics	Reason for Inclusion in the Methodology
1	Retain the 4 waste stream approach, based upon:- <ul style="list-style-type: none"> a) Commingled/pulpables (as one); b) Organics (food and Garden); c) Trade Waste, and d) Residual Waste 	To reflect collection working practices and to ensure costs and environmental benefits from recycling improvements remain.
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).	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.

3	<p>Allocate costs on the basis of an Apportionment Model (AM) which comprises:-</p> <p>a) Fixed element (i.e. are related to costs which do not vary, such as debt charges). These will be allocated to Districts based on adjusted ¹ 2017/18 actual tonnages, and will be reviewed after 5 years for 2022/23</p> <p>b) Variable costs – which reflect marginal processing cost</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>
4	<p>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>This provision ensures that one District cannot adversely impact others by reducing its recycling efforts. A 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>
5	<p>Common assumptions to be used in tonnage estimates.</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> <p>i. 50% Council Tax Base</p> <p>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>	<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>

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)

	C: <u>Authority Own costs</u> (c. £5m, 2.9% of net costs) – including direct costs (such as salaries/running costs)	
	Equal share	Costs do not vary significantly by activity, and are thus linked to an 11.1% each District allocation basis.
	D: <u>Non-Key Services</u> (c. £1m, 0.6% of net costs) – this comprises specialised waste services, such as asbestos, plasterboard, clinical waste, dog waste, etc.	
	Waste arisings	No change from the 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.

2.5 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. This 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.

2.6 Based on the revised LAM principles (para. 2.4), and updated tonnages (para. 2.5) 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	172.476	172.278	-0.031	0.229

2.7 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.

2.8 Subject to the above methodology being approved it is necessary for each GM District to obtain formal agreement before the 31 December 2017 of the new LAM. Council will be required to make the formal decision for Oldham. Once agreement has been reached it will in turn allow the 2018/19 Levy to be set by the GMWDA (8 February 2018) using the new LAM basis.

3. Options/Alternatives

3.1 The options are:

Option 1 - To approve the proposed revised LAMA and the recommendations set out earlier in the report.

Option 2 - Not to approve the proposed revised IAA and request some alternative arrangement be developed which would have to be approved by all constituent districts.

Option 3 - Do nothing, in which case the statutory default scheme will take effect.

4 Preferred Option

4.1 Option 1 at paragraph 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.

5 Consultation

5.1 There has been extensive consultation between GMWDA and all of the Districts affected.

6 Financial Implications

6.1 The agreement of the LAMA is an important determinant of the levy that which be charged to the Council by the GMWDA each financial year. The design principles on which the proposed LAMA is based (as set out at Section 2.4) provide a fair and equitable methodology to allocate waste disposal costs. These principles have been determined after extensive discussion by Chief Waste Officers and Chief Finance Officers of the 9 Councils for which the GMWDA provides a service.

6.2 The termination of the existing PFI arrangements and the agreement of the proposed LAMA should mean that the costs for waste disposal will fall but there will be a change to the method by which the costs are allocated to the 9 Councils.

6.3 As part of the annual budget and levy process the GMWDA will determine and publish the LAM Variable Cost rates which will be made available to the Councils. Given the commercial sensitivity of that information it will not be published in an open format, but will be part of the closed budget and levy report, which will be provided on or before the Statutory latest Levy fixing date of 15 February prior to the commencement of each financial year.

6.4 The GMWDA budget for a financial year is set on the basis of estimated tonnages of waste. The actual charge for each year can only be finalised at the end of the year. As soon as practical after the year end, an adjustment will be determined by the GMWDA to vary

district levy allocations to reflect variations in actual costs, income from recyclates and actual tonnages delivered (compared to forecasts). The GMWDA will aim to provide the year end Levy adjustment information by the third week of May, at the latest.

6.5 The LAMA will only be fully implemented from 2019/20 as there will be transitional arrangements in place for 2018/19. These transitional arrangements are as follows:

- a) The 2017/18 GMWDA Levy included an additional Levy sum of £77.800m to provide headroom and facilitate the restructuring of the former Waste PFI Contract. That additional Levy sum was allocated to individual WCAs on the basis of the mid 2015 population figures. The additional Levy sum will be fully reimbursed to WCAs in 2018/19 but based on the mid 2016 population numbers. To ensure the impact of the roll forward of population numbers is corrected an adjustment may need to be made, either through the inclusion of an additional factor in the 2018/19 LAMA, or via the GMCA Treasurer's adjustments on the AGMA budget requirements. The purpose of the adjustment is to ensure that the impact at a district level overall is nil.
- b) A Smoothing Factor will be included for 2018/19 only to cushion the impact of methodology changes. This Smoothing Factor will be calculated by taking 'half the difference' of the impact of methodology changes between the 2017/18 IAA basis and 2019/20 full LAMA basis (i.e. average of 2017/18 revised estimate and 2019/20 estimates). That adjustment will be subject to a further change in May 2019 to reflect actual tonnages at the LAM Variable Cost Tonnage rate.

6.6 The Councils current budget estimate for the waste disposal levy for 2018/19 has been revised based on the estimated impact of the termination of the existing PFI arrangements and the agreement of the proposed LAMA. As such it is expected that the costs will be £0.750m lower than previously expected and this will have a favourable impact on 2018/19 budget estimates. It is expected that the levy costs for 2019/20 will be £17.944m. This is based on increased tonnage levels compared to those previously anticipated and the table at 2.6 highlights the favourable impact to the Council of the proposed allocation methodology. At this stage, the implications for the 2018/19 and 2019/20 budgets must be considered indicative as tonnage figures have yet to be confirmed. It is anticipated that the Council will be formally notified of a revised levy for 2018/19 and potential charge for 2019/20 on 8 February 2018.

7 **Legal Services Comments**

7.1 Legal comments are included in the report.

8. **Co-operative Agenda**

8.1 The maximisation of recycling, the minimisation of waste being sent to landfill sites and therefore the most cost effective means of dealing with household waste is a key component in delivering the Councils co-operative agenda.

9 **Human Resources Comments**

9.1 Not applicable

10 **Risk Assessments**

10.1 If all nine authorities fail to unanimously agree on the proposed revised LAMA, this will result in the default mechanism being applied which is based on a mixture of Council Tax Base and overall tonnages. This default position would fail to generate savings or deliver environmental aspirations. (Mark Stenson)

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- 11 **IT Implications**
- 11.1 Not applicable
- 12 **Property Implications**
- 12.1 Not applicable
- 13 **Procurement Implications**
- 13.1 Not applicable
- 14 **Environmental and Health & Safety Implications**
- 14.1 Not applicable
- 15 **Equality, community cohesion and crime implications**
- 15.1 Not applicable
- 16 **Equality Impact Assessment Completed?**
- 16.1 No
- 17 **Key Decision**
- 17.1 Yes
- 18 **Key Decision Reference**
- 18.1 Agreement in writing was obtained from the Chair of the Overview and Scrutiny Board under Rule 16 of the Councils Constitution as the inclusion of the matter on the Key Decision document was impractical.
- 19 **Background Papers**
- 19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:
- File Ref: Background papers are included at Appendix 1
Officer Name: Carol Brown/ Colin Brittain / Anne Ryans
Contact No: 4452/ 3012/ 4902
- 20 **Appendices**
- 20.1 Appendix 1 - Current draft of the LAMA