

# REPORT FOR DECISION



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| <b>DECISION OF:</b>                         | <b>CABINET<br/>COUNCIL</b>   |
| <b>DATE:</b>                                | <b>15 November 2017<br/>29 November 2017</b>   |
| <b>SUBJECT:</b>                             | <b>CONSIDERATION OF THE GREATER MANCHESTER<br/>WASTE DISPOSAL LEVY ALLOCATION<br/>METHODOLOGY AND APPROVAL OF A REVISED<br/>LEVY ALLOCATION MODEL AGREEMENT</b>  |
| <b>REPORT FROM:</b>                         | <b>Councillor Quinn Cabinet Member – Environment</b>   |
| <b>CONTACT OFFICER:</b>                     | <b>Steve Kenyon, Interim Executive Director Resource<br/>and Regulations</b>   |
| <b>TYPE OF DECISION:</b>                    | <b>Cabinet - Key</b>   |
| <b>FREEDOM OF<br/>INFORMATION/STATUS:</b>   | For publication  |
| <b>SUMMARY:</b>                             | 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.  |
| <b>OPTIONS &amp;<br/>RECOMMENDED OPTION</b> | <p><b>Options</b></p> <p>1) To approve the proposed revised LAMA and the following recommendations:</p> <p>i) 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.</p> <p>ii) That authority be delegated to the Assistant Director - Legal and Democratic Services or her nominee to approve and/or make any minor amendments to the final Levy Apportionment Methodology Agreement, a current draft of which is appended to this report; and to enter into and finalise the Agreement, the transitional arrangements,</p> |

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|  | <p>and any associated documentation relating thereto.</p> <p>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.</p> <p>3) Do nothing, in which case the statutory default scheme will take effect.</p> <p><b>Recommended Option</b></p> <p>Option 1) is the preferred option</p> |
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| <b>IMPLICATIONS:</b>   |  |
| <b>Corporate Aims/Policy Framework:</b>  | Do the proposals accord with the Policy Framework? Yes   |
| <b>Statement by the S151 Officer: Financial Implications and Risk Considerations:</b>          | The new contract should generate savings / avoid future costs for the Council. The extent of these will be confirmed in December when final tonnage calculations are undertaken. |
| <b>Health and Safety Implications</b>  | There are no Health and Safety implications  |
| <b>Statement by Executive Director of Resources (including Health and Safety Implications)</b> | The revised Inter Authority Agreement seeks to simplify the levy charging model, reflect current market conditions, incentivise recycling and reduce volatility of charges.      |
| <b>Equality/Diversity implications:</b>  | There are no equality/diversity implications   |
| <b>Considered by Monitoring Officer:</b>   | Yes<br>The legal implications are set out in the report and the Levy Apportionment Methodology Agreement, which the Council is being asked to sign.                              |
| <b>Wards Affected:</b>   | All  |
| <b>Scrutiny Interest:</b>  |  |

## TRACKING/PROCESS

## DIRECTOR:

| Chief Executive/<br>Strategic Leadership<br>Team | Cabinet<br>Member/Chair | Ward Members | Partners |
|--|-------------------------|--------------|----------|
|  |                         |              |          |
| Scrutiny Committee                               | Cabinet/Committee       | Council      |          |
|  | 15.11.2017              | 29.11.2017   |          |

## 1.0 BACKGROUND

- 1.1 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 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.

- 1.3 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).
- 1.4 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.
- 1.5 Whilst the original principles upon which the IAA were founded, 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:
  - 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.
- 1.6 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.

## **2.0 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 fulfil 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.

### 3.0 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)  |  |  |
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| 1. Retain 4 waste stream approach, based upon:-<br>i. Commingled/pulpables (as one);<br>ii. Organics (food and Garden);<br>iii. Trade Waste, and<br>iv. 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.<br><br>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. |
| 3. Allocate costs on the basis of an Apportionment Model (AM) which comprises:-<br>i. fixed element (i.e. are related to costs which do not vary, such as debt charges). These will be allocated to Districts based |  |  |

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|  | <p>on adjusted<sup>1</sup> 2017/18 actual tonnages, and will be reviewed after 5 years for 2022/23</p> <p>ii. variable costs – which reflect marginal 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> |
|  | <b>B. Household Waste Recycling Centres (HWRC) (c. £31m, 17.9% of net costs)</b>  |   |
|  | <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>   |
|  | <b>C: Authority Own costs (c. £5m, 2.9% of net costs) – including direct costs (such as salaries/running costs)</b>   |   |
|  | Equal share   | Costs do not vary significantly by activity, and are thus linked to an 11.1% each District allocation basis.  |
|  | <b>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.</b>   |   |
|  | Waste arisings  | No change from the existing basis.  |

<sup>1</sup> 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).

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|     |   | It is intended that the majority of 'regular' waste will in future be included in the reprocurd contracts and thus the value of this will fall further. |   |   |   |
| 3.2 | 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 bene 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. |   |   |   |   |
| 3.3 | 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<br>projected<br>levy<br>requireme<br>nt, revised<br>LAM<br>methodolo<br>gy and<br>Sept 2017<br>tonnages                                       | February<br>2017<br>projection<br>(old IAA<br>and Dec.<br>2016<br>tonnages) | Cost/<br>Saving<br>due to<br>tonnag<br>e<br>change<br>s | Cost/ Saving<br>due to levy<br>allocation<br>methodology<br>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   |
| 3.4 | 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.  |   |   |   |   |

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

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**Background Paper:**

WASTE MANAGEMENT LEVY ALLOCATION METHODOLOGY (LAMA) AGREEMENT

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