

OXFORDSHIRE WASTE PARTNERSHIP JOINT COMMITTEE

26 March 2010

FINANCIAL ARRANGEMENTS

1 Purpose of Report

- 1.1 To further discuss year-end adjustment payments for the 2009/10 Financial Arrangements target of diverting 40% of household waste from landfill disposal and to set out forecast residual waste allowances for 2010/11.

2 Background

- 2.1 At the last meeting of the Joint Committee it was reported that actual waste arisings over the first half of 2009/10 were lower than had been predicted when setting the forecast residual waste allowances for district councils under the Financial Arrangements Agreement. The divergence between the original forecast and the lower total waste arisings now predicted for 2009/10 means that relatively large year-end adjustment payments will be needed to account for the difference. The Financial Arrangements Agreement allows for this and states that “a balancing payment will be made every April to correct any over or under payment made during the course of the year”.
- 2.2 A recommendation to stagger the balancing payment over the remainder of 2009/10 was not agreed at the last meeting. It was agreed that appropriate officer groups should look at the financial options that might be available in respect of the actual and forecast waste arisings in 2009/10 and report back to the Committee's next meeting.
- 2.3 **Appendix 1** provides an update on the likely scale of divergence between the original forecast of total waste arisings and the amount now predicted for 2009/10. Since the last meeting of the Joint Committee the forecast has been updated with actual tonnage information for November and December 2009. The difference between the original forecast and the predicted actual tonnages has closed a little. For example, the largest predicted adjustment relates to payments to Cherwell District Council, which in October were estimated at £36,027, but have now reduced to an estimated £28,243. The smallest adjustment relates to payments to West Oxfordshire District Council which in October were estimated at £27,597, but have now reduced to an estimated £23,757. Monthly updates will be provided to partner councils as tonnage information becomes available.
- 2.4 In relation to the Joint Committees' request that options be explored in relation to the financial impact of the year end adjustment, two options have been identified. These are:
- i. Do nothing – leave the Financial Arrangements Agreement unchanged and deal with the year end adjustment as set out within the Arrangements;
 - ii. Agree dampening arrangements whereby payment changes due to variance between the forecast residual tonnage allowances and the actual tonnages recorded are waived if they are beyond agreed thresholds. This approach would require an amendment to the Financial Arrangements Agreement to be agreed by all Partner Councils.

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2.5 Option 1 – Do nothing

This approach leaves the Financial Arrangements Agreement intact. Improvements to the forecasting of district council residual waste allowances could be made by regularly reviewing and reporting forecast waste arisings to the Joint Committee on a quarterly basis. This does not reduce the risk of changes to actual waste arisings (which effect payment levels under the Financial Arrangements), but it will improve the timeliness of information reported to the Joint Committee.

2.6 Option 2 – Dampening arrangements

It is inevitable that the forecast residual waste allowances for district councils set under the Financial Arrangements will vary from the actual waste arisings dealt with during the year. Under the current Financial Arrangements Agreement this “risk” is accepted.

Dampening arrangements could be developed that seek to manage the risk of what might be considered excessive variances between the forecast allowances and actual waste arisings. Table 1 shows the annual change in household waste arisings over the last 12 years. From this it can be seen that the % change is usually within 3%. Only 3 times in the last 12 years (1 year in every 4) has the % change been more than 3%. However, the % change has been more than 2.5% 6 times in the last 12 years (including 2009/10) – 1 year in every 2. Therefore, it can be argued that waste arisings for the following year can normally be predicted within a range of +/- 3% and that change beyond this range, whilst not unheard of, is not the norm.

Table 1 Annual Waste Arisings

Year	Total household waste	Household waste arisings trend (% change)
97/98	282,726	
98/99	282,556	-0.06%
99/00	290,154	2.69%
00/01	289,202	-0.33%
01/02	297,746	2.95%
02/03	303,786	2.03%
03/04	295,598	-2.70%
04/05	302,683	2.40%
05/06	297,569	-1.69%
06/07	306,871	3.13%
07/08	308,241	0.45%
08/09	296,931	-3.67%
09/10	281,828	-5.09%

An agreement could be sought whereby any variance up to +/-3% between forecast residual waste allowances for district councils and the final allowances calculated using actual waste arisings figures will be tolerated, and year end adjustment payments made as per the Financial Arrangements Agreement. It could also be agreed that any difference to bonus and penalty payments resulting from variance beyond the +/-3%

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threshold would not be payable. The impact of such an agreement on this year's payments is estimated in **Appendix 2**.

The benefit of this approach is that it limits Partner Councils' exposure to additional payments under the Financial Arrangements model caused by changes to waste arisings to known/agreed tolerance levels (i.e. +/-3% of the residual waste allowances that are agreed annually by OWP). The agreement would apply to both increases and decreases in waste arisings beyond 3%.

- 2.7 In addition to discussion on year end arrangements for 2009/10, the Joint Committee is also required to agree forecast residual waste allowances for 2010/11. These are set out in **Appendix 3**. The required landfill diversion target for 2010/11 is 41%. Waste arisings for 2010/11 have been forecast using the 10 months of data currently available for 2009/10. In light of experience this year, it is recommended that the figures be reviewed at the next meeting of the Joint Committee, when a full year's data set for 2009/10 will be available to inform 2010/11 allowance setting.

3 Financial, Risk and Staff Implications

- 3.1 Due to lower overall waste arisings so far this year, it is likely that a lower tonnage will need to be diverted in order to meet the 2009/10 target of 40% diversion from landfill. This means that district councils' residual waste allowance under the OWP financial arrangements also reduce accordingly (i.e. the total amount of waste that a district may deliver for disposal before penalties apply). A lower residual waste allowance will result in lower bonuses and increased penalty payments compared to the previous forecast. The estimated financial impact is set out in **Appendix 1**.

4 Areas Affected

- 4.1 All Partner Authorities are affected by the matters within this report.

5 Effect on Strategic Policies

- 5.1 The Financial Arrangements Agreement forms part of the OWP Constitution. The arrangements have been designed to help meet many of the policies within the Joint Municipal Waste Management Strategy that relate to waste reduction, increased recycling & composting and landfill diversion. The new arrangements specifically support policy 14, which states that "The Oxfordshire Waste Partnership will develop methods of working together to improve the level of service through effective and efficient use of resources within Oxfordshire".

6 Options or Alternatives

- 6.1 Two options are presented within the report for consideration. These are a "do nothing" approach, whereby the existing financial arrangements agreement remains unchanged, but increased monitoring and reporting of waste arisings (and estimated model payments) is introduced. The second sets out a possible amendment to the Financial Arrangements Agreement which would introduce a ceiling and floor level for changes to residual waste allowances resulting from variance between forecast and actual levels of waste arisings.

Further options or alternatives may be proposed.

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7 Recommendations

- 7.1 That the joint committee decides whether to leave the Financial Arrangements Agreement unchanged or chooses to further explore the introduction of dampening arrangements as set out in paragraph 2.6 herein.
- 7.2 That the residual waste allowances for 2010/11 set out in **Appendix 3** are noted, and that these be reviewed at the next meeting of the Joint Committee, when a full year's tonnage data will be available for the year ending 31 March 2010.

8 Reasons for Recommendations

- 8.1 To develop the best overall waste management outcomes for Oxfordshire taxpayers and to develop incentivisation arrangements that help achieve this.

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Background Papers: