

New Financial Arrangements

Update report to the Oxfordshire Waste Partnership, 28th Sept 2007

1. Purpose of report

To present the results of the latest modelling work undertaken to develop new financial arrangements for the OWP.

2. Background

Item 5 on today's agenda describes the work undertaken since the last meeting of the Partnership (on 31 Aug 2007) to develop new financial arrangements. This supplementary report presents the results of this recent work.

3. Results

3.1 Forecast recycling and composting performance

Since the last meeting of the OWP, some Partner Authorities have provided revised waste forecasts. Updated forecasts were provided by Cherwell District Council, which has increased the amount of food and garden waste that it predicts to collect, and by South Oxfordshire and Oxford City Councils, which have both reduced the amount of food waste and garden waste that they plan to collect. These latest forecasts were applied throughout.

3.2 The financial effects of In-vessel Composting

The Statutory Instrument (SI) and the new financial arrangements have been adjusted to remove all payments by Oxfordshire County Council (OCC) to the District Councils for waste treated at an In-vessel composting facility (IVC) provided by OCC. The IVC Gate fees are paid by OCC. The results are set out in table 1 below.

Table 1 Statutory Instrument and Financial Arrangements payments

WCA payments 2009/10 to 2019/20	Cherwell	City	Vale (H)	South (H)	West (H)	Total
SI payments	£8,822,915	£7,104,803	£8,068,078	£10,751,892	£8,796,464	£43,544,152
FA payments	£6,550,778	£9,144,150	£9,323,078	£10,650,997	£5,827,001	£41,496,004
<i>Difference</i>	<i>-£2,272,137</i>	<i>£2,039,347</i>	<i>£1,255,000</i>	<i>-£100,895</i>	<i>-£2,969,463</i>	<i>-£2,048,148</i>

From table 1 it can be seen that three authorities are worse off under the new arrangements than under the SI. These are Cherwell, South Oxfordshire and West Oxfordshire District Councils. The City Council and Vale of White Horse District Council benefit from higher levels of payment under the new arrangements.

The reason for the loss to Cherwell District Council is because Cherwell proposes to collect food waste and garden waste together. This commingled waste is then all sent to an IVC facility. As no payments are made by OCC for waste treated at the IVC facility (OCC pays the gate fees), this means that Cherwell does not attract recycling credits or payments under the new arrangements for any of this waste. Other authorities, which plan to collect food waste separately, will send much lower tonnages for IVC and can continue

to attract payments for garden waste (that is collected separately and is not processed at the IVC facility).

Whilst West Oxfordshire predicts good levels of recycling and composting, its forecast residual waste arisings remain above average and the highest in Oxfordshire. West Oxfordshire therefore performs better under the SI, where payments are based on the tonnage of waste recycled and composted, than it does under the new financial arrangements, which are based on performance against residual waste targets.

The loss of £100,895 recorded for South Oxfordshire is due to the Council paying some BMW penalties under the new arrangements from 2010/11 to 2012/13 and is a consequence of the Council's revised waste projections, which predict that less food waste and garden waste will be composted than previously estimated.

District Councils forecast recycling & composting performance and residual waste performance are illustrated in charts 1 and 2 respectively.

Chart 1 Recycling & Composting performance

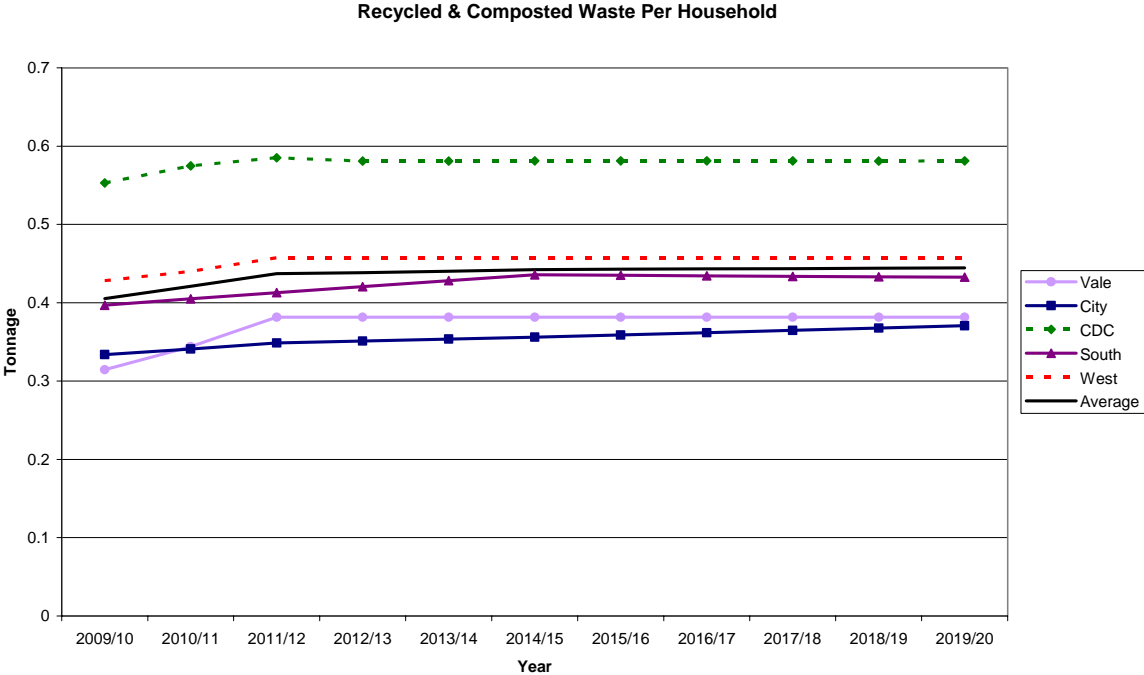
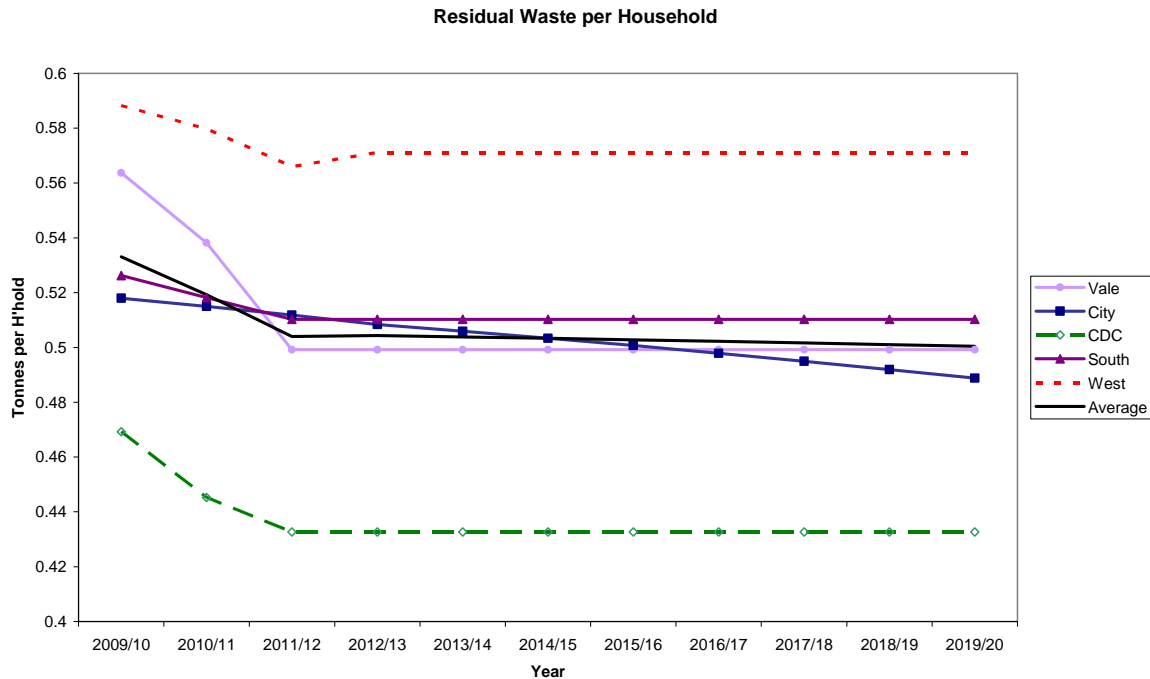


Chart 2 Residual waste arisings



From chart 1 it can be seen that Cherwell predicts that it will recycle and compost most waste per household and the City Council the least. West Oxfordshire predicted levels of recycling and composting are also above the average rate.

From chart 2 it can be seen that West Oxfordshire forecasts most residual waste per household and Cherwell least. The remaining authorities are clustered around the average.

3.3 IVC Gate fee costs

IVC gate fees are predicted to be in the region of £22 million between 2009/10 and 2019/20. The total payments to District Councils under the new financial arrangements, before payments made for IVC waste had been deducted totalled £67.3 million. When the gate fees for IVC are deducted this leaves approximately £45 million of payments. This figure is similar to the total payment levels set out in table 1 herein. As OCC is currently developing a procurement exercise for IVC capacity, there is a general presumption that it will pay the gate fees. Early agreement on this issue by the OWP will help to facilitate the development of new financial arrangements, by providing some clarity on the allocation of operating costs and payments within the model.

3.4 The impact of Waste Minimisation

An annual reduction of 0.65% per annum was applied to each District Councils' forecast residual waste arisings and BMW arisings. This has no effect on the SI payments, which are based solely on the amount of waste recycled & composted. However, under the new financial arrangements this resulted in additional payments to the District Councils totalling £268,587. More significantly, these waste minimisation measures generate overall savings of £1,109,439 from 2009/10 to 2020. The savings result from reduced treatment, disposal and Landfill Allowance Trading Scheme (LATS) costs. The figures presented in table 1 above do not take account of these waste minimisation measures.

4. Issues for discussion

From table 1 it can be seen that Cherwell District Council receives over £2 million less under the new financial arrangements that it would under the SI. This is despite Cherwell recycling and composting the most (see Chart 1) and presenting least residual waste (see chart 2). This situation is a result of the commingled food & garden waste collection planned by Cherwell combined with the removal of payments for waste treated at an OCC IVC facility.

Consideration could be given as to whether some adjustment to payments under the new arrangements can be made for those authorities, such as Cherwell, operating commingled food and garden waste collections. Most IVC facilities require a mix of both garden waste and food waste to operate successfully. In recognition of this, payments could, perhaps, be made for some garden waste delivered to the IVC facility by those District Councils operating commingled collections. A ceiling value could be set to prevent excessive amounts of garden waste entering the IVC facility. This option would need to be assessed further, but it may be a potential way of improving the position of Cherwell District Council (and other authorities that plan to operate similar collection systems) within the new arrangements.

From table 1 it can also be seen that the affordability issues for West Oxfordshire that were highlighted at the last meeting of the OWP remain. West Oxfordshire earns nearly £3 million less under the new arrangements than under the SI. The reason for this is that West Oxfordshire forecasts the highest levels of residual waste generation, meaning that it fails to meet the Residual waste and BMW targets within the new financial arrangements.

Recent changes to the new financial arrangements have added complexity. The new arrangements are becoming difficult to fully understand. There are a number of interdependencies within the model (for example, changing the forecast waste arisings of one authority can alter the residual waste targets for all authorities) and also sensitivities, where relatively small changes to tonnage projections can have fairly significant impacts upon payments. These “risks” need to be more fully understood. Additionally, a simplified version needs to be created for operational purposes, so that it can be more widely understood and become more “user friendly”. It is believed that these issues can be addressed by officers within a timescale of a few weeks, but this work can only be undertaken once decisions have been made on the scope and content of the new arrangements.

Due to the complexity of the new arrangements consideration could also be given to devising a new, alternative approach that meets (as far as possible) the agreed financial principles of the OWP, whilst also acknowledging some of the potential stumbling blocks that have been encountered thus far, such as complexity, affordability, risk and uncertainty. It is likely that an alternative approach would maintain elements of the SI, but would also introduce new incentive payments (and possibly penalties) based on residual waste reduction.

5. Recommendations

That:

- I. OWP agrees that for the purpose of any further financial modelling, gate fee costs for IVC shall be paid by OCC;
- II. OWP continues to prioritise waste reduction and reuse measures, as these can potentially lower the overall waste management costs within Oxfordshire;
- III. The potential for some payments to be made to District Councils for garden waste delivered to an IVC facility be explored in order to redress the inordinate effect on

payments that the removal of incentives for IVC treated waste has had upon those authorities operating commingled collections;

- IV. OWP considers whether any additional measures or support can be provided in order to reduce forecast residual waste arisings within West Oxfordshire;
- V. Either the OWP reaffirms its commitment to the new financial arrangements and tasks officers with simplifying the work to date for future presentation;
- VI. Or the OWP agrees to bring work on the current arrangements to an end and tasks officers with developing a new, simpler set of arrangements based on the current SI that meets as far as possible the agreed financial principles;
- VII. Or the OWP requests that both options V and VI above be progressed.

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26th September 2007