

OXFORDSHIRE WASTE PARTNERSHIP JOINT COMMITTEE**29 February 2008****New Financial Arrangements****1 Purpose of Report**

- 1.1 To report further progress on the development of new financial arrangements and to seek agreement on a model to replace the existing recycling credits scheme with effect from 1 April 2009.

2 Background

- 2.1 At its meeting on 30th November 2007 the Oxfordshire Waste Partnership agreed a revised approach to the new financial arrangements and resolved that the following tasks be completed, with a view to reaching a final agreement at the next meeting of the Partnership in February 2008:

- I. finalising the unit payment levels for both recycling credit and residual waste target payments, so that residual waste reduction is prioritised over increased recycling and composting;
- II. full checks by each of the Partner Authorities on the financial cost to them;
- III. re-visiting the tonnage forecast provided by each collection authority to ensure consistency and to assess scope for further progress towards JMWMS targets;
- IV. Model verification by the Oxfordshire Treasurers Association;
- V. Agreeing any short term transitional arrangements (to be developed by the Treasurers Association), if needed, to phase in the financial impacts resulting from the new arrangements.

2.2 Finalising the unit payments

The model presented to the OWP meeting on 30th November 2007 is based on the payment of a recycling credit for every tonne recycled & composted, plus an incentive or penalty payment set at 50% of the recycling credit value for each tonne of residual waste below or above target. These payment values were set within the model at £40 per tonne and £20 per tonne respectively for 2009/10.

Two alternative payment levels have subsequently been considered; these are:

- I. £30 recycling credit and £30 residual waste incentive/penalty;
- II. £39 recycling credit and £26 residual waste incentive/penalty.

The results are set out in table 1 and are based on the most recent waste tonnage forecasts.

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Table 1 - Impact of alternative payment levels compared to Statutory Instrument over 10 years (2009/10 – 2019/20)

	<u>Total payment @ £40/ £20</u>	<u>Total payment @ £30/£30</u>	<u>Total payment @ £39/£26</u>
Cherwell	946,022	-991,470	848,811
City	513,490	-1,370,965	334,352
South	-260,610	-3,296,161	-775,448
Vale	-163,826	-2,426,707	-541,283
West	562,259	-2,377,133	233,186
Total	1,597,334	-10,462,436	99,618

From table 1 it can be seen that under the £30/£30 payment level there is a net reduction in payments to district councils of £10.46m over the 10 year period, compared to the Statutory Instrument (SI) payments over the same period. This variance from the previous approach and indicative payment levels considered on 30th November 2007 is considered excessive.

At the £39/£26 payment level there is a net increase in payments to district councils of £100k compared to the SI. This also serves to increase the proportion of payments attributed to the residual waste incentive/penalty. However, it also results in overall losses to all district councils when compared to the £40/£20 payment level.

- 2.3 The £40/£20 scenario disadvantages all district councils the least. It does result in additional payments by the county council in return for district councils surpassing their residual waste reduction targets. However, the additional payment by the county council will be less than the cost of treatment or disposal of the waste were it not diverted and also serves to reduce Oxfordshire's LATS liabilities. In this sense the £40/£20 payment level represents a "win-win" situation, in that there is a clear incentive for district councils to out perform against targets, whilst there are reduced waste disposal liabilities for the county council. Both the Oxfordshire Treasurers Association and the Officer Strategy Group agree that the payment levels should be set at £40 and £20 in 2009/10. These payments will be refined to two decimal places.

2.4 Full checks by partner authorities

The financial arrangements spreadsheet model was distributed to each partner council in December 2007 (to each authority's OTA representative). When requested, the OWP Coordinator has also visited individual partner councils to provide further explanation of the new arrangements. Partner councils have not identified any obvious errors within the model and have satisfied themselves that they understand how the new arrangements work. Additionally, OWP has previously agreed to a "dummy run" of the new arrangements in 2008/09, when they will be calculated alongside the existing recycling credits scheme. If any errors or omissions exist, they should be identified during this testing phase and resolved in good time for the April 2009 launch.

Re-visiting tonnage forecasts

Since 30 November 2007, updated tonnage forecasts have been provided by Oxford City Council and West Oxfordshire D.C. Both authorities have re-evaluated the way that they will collect green waste and food waste for composting (or equivalent treatment). These revised forecasts have seen the overall countywide recycling & composting rate reach 50%, a 2% increase against the previous forecast, but still 5% short of the Joint Municipal Waste Management Strategy (JMWMS) target of 55% by 2020.

The JMWMS and key targets are regularly monitored through the JMWMS action plans and also undergo a wider review every five years. Adequate target monitoring and control systems are in place to identify variances from targets. The current forecast shortfall against

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our recycling & composting target is probably due to the difficulty of forecasting performance ten years ahead. It is likely that the next ten years will see policy, legislative and technological changes that mean that our longer term targets will be reached. This has certainly been the case over the last ten years (1997 to 2007), when Oxfordshire's recycling & composting rates have increased five-fold from just 7.7% to 38%, due largely to the influence of such external factors.

The financial arrangements model is a prediction of payments and penalties based upon forecast tonnages – variations to these will lead to variations in the payment regime. A summary of the recent forecast tonnage changes is provided in table 2. The impact of these on the payments within the model is detailed in table 3.

Table 2 revised tonnage forecasts

		Forecast tonnages 2009/10 – 2019/20		
		@30th Nov 2007	@29th Feb 2007	<i>Difference</i>
Cherwell	Total recycled & composted	393,051	393,051	0
	Total residual	296,929	296,929	0
	Total MSW	689,980	689,980	0
Oxford City	Total recycled & composted	272,225	258,633	-13,593
	Total residual	288,477	302,069	13,593
	Total MSW	560,702	560,702	0
Vale	Total recycled & composted	216,280	216,280	0
	Total residual	295,175	295,175	0
	Total MSW	511,456	511,456	0
South	Total recycled & composted	277,451	277,451	0
	Total residual	334,739	334,739	0
	Total MSW	612,190	612,190	0
West	Total recycled & composted	233,429	295,665	62,236
	Total residual	295,021	232,785	-62,236
	Total MSW	528,450	528,450	0
OCC (WRCs)	Total recycled & composted	425,257	425,257	0
	Total residual	465,443	465,443	0
	Total MSW	890,700	890,700	0
Oxon. Overall	Total recycled & composted	1,817,694	1,866,337	48,644
	Total residual	1,975,784	1,927,141	-48,644
	Total MSW	3,793,478	3,793,478	0

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Table 3 Financial Arrangements Payments

WCA payments 2009/10 to 2019/20	Cherwell	City	Vale (H)	South (H)	West (H)	Total
FA payments @ 30 th November 2007 ¹	£9,807,321	£10,685,677	£7,969,911	£10,569,945	£7,938,980	£46,971,834
FA payments @ 29 February 2008	£10,090,685	£8,664,693	£8,198,003	£10,881,754	£12,840,385	£50,675,520
<i>Difference</i>	<i>£283,364</i>	<i>-£2,020,984</i>	<i>£228,092</i>	<i>£311,809</i>	<i>£4,901,405</i>	£3,703,686

2.5 From table 2 it can be seen that overall, an additional 48,644 tonnes of waste are forecast to be recycled & composted, with a corollary decrease in residual waste. This results in additional payments by the county council to district councils of £1,955,444. In addition to this an increase to the base recycling credit payment within the model² has added further payment of £1,748,244, bringing the total additional payments to district councils to £3,703,686 between 2009/10 and 2019/20. The forecast savings to the county council (through reduced disposal and related costs) resulting from these revised tonnage forecasts is some £13,674,654 (net of payments to district councils and of increase to base recycling credit payment).

2.6 Model verification by the OTA

The model has been checked for formulaic integrity by the Chairman of the OTA who concludes that the model seems to be accurate in terms of the inputs compared to the outputs. The OTA has also assisted the recent work on different payment levels as set out in paragraph 2.2.

2.7 Short term transitional arrangements

Based on the current unit payments within the model of £40 per tonne recycling credit, plus £20 per tonne residual waste incentive/penalty, the OTA considers transitional arrangements to be unnecessary. In the first three years of the new arrangements (the maximum time frame that OTA believes that any transitional arrangements should be applied), four of the five Waste Collection Authorities (WCAs) receive additional payments in each year under the new model compared to the Statutory recycling credits system (SI). Based on the latest tonnage forecasts, West Oxfordshire District Council receives £87k less income in the first year (2009/10), but then benefits from incentive payments thereafter (gaining £112K in 2010/11 and 109K in 2011/12).

¹ The payment figures reported to OWP on 30th Nov for Oxford City were incorrect (table 1 within agenda item 5 of 30th Nov). The correct figure is provided in table 3 above. As a result of the recalculation of Oxford City's figures, payments to other district councils detailed in table 3 above have also altered slightly from those reported on 30th Nov.

² Previous versions of the model inflated the recycling credit payment by 2.5% per annum, whereas the Environmental Protection (Waste Recycling Payments) Regulations, 2006 actually set out a 3% annual increase. Therefore, this 3% annual increase has replaced the 2.5% annual increase previously featured within the model.

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3 Partnership Agreement

The model that is now presented for agreement by the OWP differs considerably to that set out within annex 4 of the OWP Partnership Agreement. An amendment to annex 4 therefore needs to be developed and agreed by the partnership and to this end; an early revised draft is set out within appendix 1 to this report. It is recommended that authority be delegated to the OWP Chairman and Coordinator to finalise this agreement (based on the draft set out within appendix 1) for approval by each Partner Council. Legal support in drafting this revised annex will be provided by the county council.

Financial, Risk and Staff Implications

- 3.1 Payments remain based on forecast waste reduction, recycling & composting performance. Any variance from these forecasts will result in changes to the level of income projected for each WCA.

4 Areas Affected

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

5 Effect on Strategic Policies

- 5.1 The new financial arrangements have been designed to help meet many of the policies within the JMWMS 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 An alternative to the new financial arrangements would be to continue with the existing Statutory Instrument. However, this would not be consistent with the JMWMS or the Partnership Agreement as it rewards only one element of the waste hierarchy.

7 Recommendations

- 7.1 That:
 - I. OWP agrees the new financial arrangements, to be implemented by 1 April 2009;
 - II. arrangements are put in place to test the model during 2008/09;
 - III. with the support of the county council's Legal Services, the OWP Chairman and Coordinator finalise revisions to annex 4 of the OWP Partnership Agreement for approval by the Partner Councils;
 - IV. an update report be provided to the next meeting of the Leaders group.

8 Reasons for Recommendations

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- 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:

"New Financial Arrangements", Agenda item 5, OWP meeting, 30th November 2007

"New Financial Arrangements - Update report to the OWP" Supplementary report OWP meeting, 28th September 2007

"New Financial Arrangements", Agenda item 5, OWP meeting, 28th September 2007

"New Financial Arrangements", Agenda item 5, OWP meeting 31 August 2007

"New Financial Arrangements", Agenda item 6, OWP Meeting 25th May 2007

"OWP Financial Arrangements", Agenda item 7, OWP Meeting 30th March 2007.

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OWP Partnership Agreement

Waste Management Financial Arrangements – revised draft, February 2008

PRINCIPLES

1. These arrangements only apply to household waste.
2. Outside of what is proposed and agreed each Authority will remain responsible for its own waste management costs, according to its statutory responsibilities.
3. The key objectives of the new financial regime are:
 - (a) to promote waste reduction and reuse as well as recycling;
 - (b) equity, with each Authority responsible for the financial consequences of its performance;
 - (c) So far as is practicable, to enable Oxfordshire to avoid paying LATS penalties;
 - (d) to avoid perverse incentives (those that encourage behaviour contrary to the Oxfordshire Waste Strategy);
 - (e) simplicity.

REVENUE – ARRANGEMENTS FROM 1 APRIL 2009

4. For each year from 2009/10 there will be a countywide target for the maximum amount of residual waste to be disposed. This will be calculated to meet overall diversion targets required to meet the OWP's Joint Municipal Waste Management Strategy (OJMWMS) targets for recycling & composting, LAA targets and any other targets agreed by OWP.
5. The countywide target will be split between OCC and the Waste Collection Authorities (WCAs) calculated from the percentage of waste collected in 2005/06.
6. The WCA target will be divided between the WCAs based on the number of households in each, so that each WCA has the same residual waste target per household.
7. Each WCA will receive:
 - (a) a payment for each tonne of waste recycled & composted at a rate calculated in accordance with the method used for recycling credits (as set out within the Environmental Protection (Waste Recycling) Regulations), except where OCC makes arrangements for the waste to be recycled or composted, when no payment will be received;
 - (b) a payment for each tonne of waste below its residual waste target, at a rate of 50% of the recycling credits payment.
8. Conversely, each WCA will pay a payment for each tonne of waste above its residual waste target, at a rate of 50% of the recycling credits payment.

ADMINISTRATION

9. A payment for each tonne of waste recycled & composted, at a rate calculated in accordance with the method used for recycling credits, will be made by OCC to WCAs each month on receipt of a suitably evidenced claim from the WCAs.

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10. In addition to this monthly payment, OCC will make an annual payment to each WCA by no later than 31st May each year, at a rate of 50% of the recycling credits payment, for each tonne of waste that a WCA is beneath its residual waste target for the preceding financial year.
11. Conversely, OCC will invoice a WCA by no later than 31st May each year at a rate of 50% of the recycling credits payment for each tonne of waste by which the WCA has exceeded its residual waste target for the previous financial year.
12. The payment per tonne will increase each year as set out within the Environmental Protection (Waste Recycling) Regulations

NEW INITIATIVES FUND

13. OCC will create a fund to help meet the capital or one-off costs of waste management initiatives. These would be new initiatives designed to meet OJMWMS objectives, and in particular minimise residual waste requiring landfill or further treatment.
14. The Partner Authorities agree to pay into this fund the reward grant that is due to them from achievement of the PSA1 wastes target, and any reward grant that becomes payable to them for achievement of the LAA stretch target on non biodegradable municipal wastes.