

OXFORDSHIRE WASTE PARTNERSHIP JOINT COMMITTEE**30 November 2007****New Financial Arrangements****1 Purpose of Report**

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

2 Background

- 2.1 On 28th September the committee considered a further report on new financial arrangements. It was acknowledged that recent changes had added complexity. There was a consensus that a simplified model needed to be developed so that the arrangements could be more widely understood and become more 'user friendly'.
- 2.2 The affordability of the new arrangements (compared to the existing Statutory Instrument payments) to two of the Partner Authorities (Cherwell District Council and West Oxfordshire District Council) was also highlighted as a problem on 28th September. It was acknowledged that the adverse financial implications for Cherwell District Council resulted from the way that incentive payments for food waste were treated by the model. Whilst high forecast residual waste arisings contributed to West Oxfordshire's adverse position, it was also acknowledged this situation was compounded by the sensitivity of the model, which resulted in high penalties for relatively small changes to forecast performance. It was also noted on 28th September that due to revised waste forecasts, South Oxfordshire appeared to be slightly worse off under the new arrangements.
- 2.3 In light of the problems outlined in paragraph 2.2 above it was agreed that the need for any adjustments to incentive payments for food waste be explored and also that a simpler model with reduced financial sensitivity be developed. In addition to these measures, OWP also agreed to support short term transitional arrangements for any authority experiencing negative financial impacts as a result of these arrangements.
- 2.4 A simplified approach has now been developed that addresses the concerns relating to food waste incentive payments and model sensitivity. It still meets the OWP's agreed financial principles.
- 2.5 Under the new model, the Statutory Instrument (recycling credits system) is maintained as the basis of payments by the Waste Disposal Authority (WDA) to the Waste Collection Authorities (WCAs). It offers a payment for each tonne of waste that is recycled or composted and reflects the saved cost of not having to dispose of waste that is instead recycled or composted by the WCAs. This payment has provisionally been set at £40 in 2009/10 (the predicted cost of landfilling a tonne of waste, before landfill tax) and increases each year with inflation. This tonnage based recycling credit replaces the previous "per household recycling credit" payment set out within the OWP financial principles.
- 2.6 The statutory recycling credit provides a clear reward for increased recycling & composting, whereas the credit per household did not. However, taken in isolation it places emphasis on recycling rather than on the reduction of overall waste. The new model therefore retains a residual waste incentive/penalty payment.

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- 2.7 This residual waste payment has provisionally been set at 50% of the recycling credit rate (approximately £20 in 2009/10). The payment is designed to ensure that the recycling & composting targets set out within the Joint Municipal Waste Management Strategy are met. It is still calculated in the same way as is set out within the OWP's agreed financial principles, so each WCA receives the same residual waste allowance per household. This maintains the equity principle set out within the OWP partnership agreement.
- 2.8 Under this revised approach each WCA receives a recycling credit payment for every tonne of waste that it recycles & composts (£40 per tonne in 2009/10), plus an additional "bonus" payment (£20 per tonne in 2009/10) if it outperforms against its residual waste target. If the WCA fails to meet its residual waste target, then its recycling credits payments are adjusted downwards (again by £20 per tonne) for every tonne by which it has exceeded its residual waste allowance. The recycling credit would not be payable where the recycling is carried out by the WDA at its cost (as would be the case for food waste treatment) but it does at present propose that the residual waste diversion payment would still be paid. The final unit payment values (for both the recycling credit and incentive/penalty) could be considered further in order to ensure that the model suitably incentivises waste minimisation over recycling.
- 2.9 The Biodegradable Municipal Waste (BMW) target set out within the OWP partnership agreement has been dropped. WCAs were unable to meet these targets resulting in affordability issues. Whilst dropping the BMW target has weakened the relationship between WCA performance and the Landfill Allowance Trading Scheme targets, it is felt that the residual waste target essentially achieves the same thing – encouraging WCAs to reduce residual waste. Dropping the BMW target has helped greatly to simplify the model.
- 2.10 Table 1 summarises the overall payments that are forecast for each WCA and compares these with the SI payments and the FA payments presented on 28th September. From this it can be seen that the financial positions of both Cherwell and West Oxfordshire have considerably improved. The positions of the City Council, Vale of White Horse and South Oxfordshire have worsened. However, these headline figures should not be read in isolation. Appendix 1 provides a summary of the annual performance of each WCA and also their forecast annual payments. From this it can be seen that each authority (except West Oxfordshire) receives incentive payments for the first six years of the new arrangements, meaning they earn more than under the SI during this period. It is only in the latter years, when a number of authorities fail to meet their targets, that penalties are incurred.

Table 1 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 @ 28 th September	£6,550,778	£9,144,150	£9,323,078	£10,650,997	£5,827,001	£41,496,004
Revised FA payments @ 30 th November	£9,815,653	£7,079,602	£7,977,010	£10,577,872	£7,945,266	£43,395,403

- 2.11 The figures within appendix 1 highlight a wider problem –that our current forecasts see a number of authorities' recycling rates plateau at 40 – 45%. This results in the OWP recycling rate failing to get beyond 47%; 8% short of our 2020 target of 55%. The Officer Strategy

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Group will review these forecasts to ensure that they remain accurate and will also consider additional measures to improve performance. Findings will be reported to the next meeting of the OWP.

- 2.12 The full spreadsheet model supporting these arrangements has been circulated to Officers and has also been presented to the Oxfordshire Treasurers Association (OTA). The OTA has agreed to assist with model verification and initial checks have already been completed. The OTA has also agreed to develop options on transitional arrangements.
- 2.13 An update was provided to the October meeting of the Oxfordshire Leaders Group, who noted the progress in relation to the new simpler arrangements and affirmed their commitment to developing a model that is acceptable to all partner authorities that will be ready for implementation in April 2009. The Leaders agreed that this revised model should be the basis of any further work and that OWP seeks to agree the new financial arrangements by Spring 2008. A further report will then be presented to the Oxfordshire Leaders Group for agreement on the final financial arrangements by April 2008.

3 Financial, Risk and Staff Implications

- 3.1 Many of the risks that have been highlighted in previous reports on this subject have been mitigated:
 - I. The sensitivity of the model to changes in forecast performance has been reduced;
 - II. Uncertainty relating to the market value of LATS permits has been avoided by removing BMW targets from the model;
 - III. Issues surrounding the payment of gate fees and incentive payments relating to food waste have been cleared up through a position statement from the county council;
 - IV. The complexity of the model and its calculations has been reduced, resulting in less scope for error.
- 3.2 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, albeit within a more acceptable range. Therefore, each Partner Authority will need to assess the financial implications for their authority of moving to the new financial arrangements.
- 3.3 A potential “upside” risk is that the new financial arrangements will lead to overall improvements in waste management. The arrangements provide a tangible incentive to reduce the amount of waste landfilled, meaning that key OWP objectives such as “managing waste in accordance with the waste hierarchy” and “improved value for money for the benefit of council tax payers across Oxfordshire” will be progressed.

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

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the level of service through effective and efficient use of resources within Oxfordshire”.

- 5.2 Pursuing the new approach set out in this report will require a slight amendment to the OWP Partnership Agreement (of which the Financial Arrangements forms part).

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 OWP agrees the revised approach set out herein and that the following tasks be completed with a view to reaching a final agreement on the new financial arrangements at the next meeting of the partnership in February 2008:
- Finalising the unit payment levels for both the recycling credit and residual waste target payments, so that residual waste reduction is prioritised over increased recycling & composting;
 - Full checks by each of the Partner Authorities on the financial costs for them;
 - Revisiting the tonnage forecasts provided by each WCA to ensure consistency and to assess scope for further progress towards our JMWMS targets;
 - Model verification by the Oxfordshire Treasurers Association;
 - Agreeing any short term transitional arrangements (to be developed by the OTA), if needed, to phase in the financial impacts resulting from the new arrangements

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:

“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.

Appendix 1 – Performance and payments

Cherwell

Performance	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Residual Allowance	55%	54%	54%	53%	52%	51%	49%	47%	46%	44%	42%
Forecast residual	46%	44%	43%	43%	43%	43%	43%	43%	43%	43%	43%
<i>Difference</i>	9%	11%	11%	10%	9%	9%	7%	5%	3%	1%	-1%

Payments	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
SI credits £	£661,900	£689,675	£718,701	£745,657	£772,173	£799,550	£827,813	£856,486	£886,061	£916,666	£948,233	£8,822,915
FA	£771,350	£822,292	£860,652	£881,447	£901,294	£921,271	£926,278	£929,825	£932,424	£934,104	£934,716	£9,815,653
<i>Difference</i>	£109,450	£132,617	£141,951	£135,790	£129,120	£121,721	£98,465	£73,339	£46,363	£17,438	-£13,516	£992,739

City

Performance	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Residual Allowance	66%	65%	63%	62%	61%	60%	58%	56%	54%	52%	49%
Forecast residual	61%	60%	59%	59%	59%	59%	58%	58%	58%	57%	57%
<i>Difference</i>	5%	5%	4%	3%	3%	2%	0%	-2%	-4%	-6%	-7%

Payments	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
SI credits £	£526,958	£556,332	£587,385	£606,648	£626,476	£646,959	£668,041	£688,779	£710,159	£732,201	£754,865	£7,104,803
FA	£577,687	£602,367	£627,882	£641,960	£655,112	£668,454	£667,477	£665,073	£661,955	£658,121	£653,513	£7,079,602
<i>Difference</i>	£50,729	£46,034	£40,497	£35,311	£28,636	£21,496	-£564	-£23,705	-£48,203	-£74,080	-£101,352	-£25,201

South H

Performance	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Residual Allowance	61%	60%	59%	58%	56%	55%	53%	51%	49%	47%	45%
Forecast residual	57%	56%	55%	55%	54%	54%	54%	54%	54%	54%	54%

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<i>Difference</i>	4%	4%	4%	3%	2%	1%	-1%	-3%	-5%	-7%	-9%
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Payments	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
SI credits £	£826,561	£853,945	£882,272	£911,424	£941,477	£972,446	£1,004,442	£1,037,566	£1,071,708	£1,106,890	£1,143,161	£10,751,892
FA	£867,476	£895,967	£924,448	£944,226	£964,332	£984,568	£990,536	£995,826	£1,000,274	£1,003,809	£1,006,408	£10,577,872
<i>Difference</i>	£40,915	£42,022	£42,176	£32,802	£22,855	£12,123	-£13,905	-£41,741	-£71,434	-£103,081	-£136,753	-£174,020

Vale H

Performance	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Residual Allowance	64%	63%	62%	61%	60%	59%	57%	55%	53%	50%	48%
Forecast residual	64%	61%	57%	57%	57%	57%	57%	57%	57%	57%	57%
<i>Difference</i>	0%	2%	5%	4%	3%	2%	0%	-2%	-4%	-6%	-8%

Payments	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
SI credits £	£616,105	£637,682	£657,217	£679,934	£703,457	£727,793	£752,786	£780,144	£808,269	£837,306	£867,386	£8,068,078
FA	£614,355	£653,952	£706,629	£721,468	£736,610	£751,876	£754,217	£757,272	£759,350	£760,500	£760,782	£7,977,010
<i>Difference</i>	-£1,750	£16,270	£49,412	£41,535	£33,153	£24,083	£1,430	-£22,872	-£48,919	-£76,806	-£106,604	-£91,068

West H

Performance	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Residual Allowance	55%	54%	53%	52%	51%	50%	49%	47%	45%	43%	41%
Forecast residual	58%	57%	55%	56%	56%	56%	56%	56%	56%	56%	56%
<i>Difference</i>	-3%	-3%	-2%	-3%	-4%	-5%	-7%	-9%	-11%	-12%	-14%

Payments	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
SI credits £	£624,578	£668,968	£725,830	£751,490	£778,068	£805,460	£833,735	£860,177	£887,598	£915,670	£944,742	£8,796,316
FA	£601,079	£644,806	£705,450	£716,718	£733,333	£750,050	£755,453	£757,736	£759,521	£760,417	£760,702	£7,945,266
<i>Difference</i>	-£23,499	-£24,162	-£20,380	-£34,772	-£44,735	-£55,409	-£78,281	-£102,441	-£128,077	-£155,253	-£184,040	-£851,050

Total FA payments £43,395,403