AGMA EXECUTIVE BOARD MEETING

Date: 27th October 2017

Subject: GM Waste Disposal Authority - replacement Levy allocation agreement (Inter Authority Agreement - IAA)

Report of: Councillor Sean Anstee (Leader Trafford Council and Chair Waste Executive Board), and Councillor Nigel Murphy (Chair, GMWDA)

PURPOSE OF REPORT

The report sets out the recommended methodology for the replacement IAA to apply from the 2019/20 financial year, which has been extensively consulted upon with District Chief Executives, Waste Chief Officers and Treasurers. The report also makes a proposal for the 2018/19 year which would be a year of transition from the current to proposed basis.

RECOMMENDATIONS:

It is recommended that AGMA Executive commend the revised methodology and Levy Allocation Methodology, for adoption by each of the GMWDA nine constituent districts.

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GMWDA

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**BACKGROUND PAPERS:**

<table>
<thead>
<tr>
<th>TRACKING/PROCESS</th>
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<tbody>
<tr>
<td>Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board</td>
<td>No</td>
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<table>
<thead>
<tr>
<th>EXEMPTION FROM CALL IN</th>
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<tr>
<td>Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?</td>
<td>N/A</td>
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<tr>
<td>AGMA Commission</td>
<td>TfGMC</td>
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Risk Management – not applicable to the report

Legal Considerations – adoption of a revised levy allocation methodology requires unanimous agreement from all nine constituent districts

Financial Consequences – Revenue – none direct

Financial Consequences – Capital – not applicable
1.0 Purpose of the report

1.1 The report sets out final proposals for an amended locally determined basis on which to apportion the Levy to individual districts (which replaces the existing IAA methodology). That basis would be applied in full for the 2019/20 financial year onwards, with transitional arrangements being used to cushion the financial impact of changes in the 2018/19 financial year.

2.0 Background

2.1 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 our 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 will ‘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.

2.2 Whilst the principles of the IAA were well intentioned, in practice the effect of the above has been:

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) it exaggerates the benefits for one District, over wider savings/ benefits for the conurbation;

d) there is a lack of transparency; and

e) a number of perverse results are caused by application of bandings.

All constituent Districts have very recently reached the same capacity for residual waste collections. This provides an opportunity, along with the new operating contract(s) arrangements, to move to a different and more stable IAA.

2.3 Therefore, once the PFI Contract is formally terminated, the existing IAA will no longer be binding, and a new IAA must be unanimously agreed by all nine constituent Districts. Failure to agree will result in the national default mechanism being applied. That 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.

3.0 **Proposals for a replacement Levy Allocation Methodology (LAM)**

3.1 An extensive and inclusive process of consultation has now been concluded about the replacement process and set out below are the broad principles for the new levy allocation methodology agreement.

3.2 The key design characteristics, for a 10 year duration LAM and reasons for their inclusion are:

A. **District Collected Waste** (c £136m, 78.6% of net costs)

1. Retain 4 waste stream approach, based upon:
   - i. Commingled/pulpables (as one);
   - ii. Organics (food and Garden);
   - iii. Trade Waste, and

   Reflects collections working practices and ensures costs/environmental benefits from 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.

   Increases transparency, stops a mere cost reallocation exercise (as changes in levy are broadly matched by corresponding changes in costs paid to the contractors); and 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:-
i. fixed element (i.e. are related to costs which don’t vary, such as debt charges). These will be allocated to Districts based on adjusted\(^1\) 2017/18 actual tonnages, and will be reviewed after 5 years for 2022/23

ii. variable costs – which reflect marginal processing cost.

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.

5. Common assumptions to be used in tonnage estimates.

Ensures that all future year increases are based upon common factors, such as expected changes in housing type/numbers and population. Will also ensure re-procurement facilities/capacity are correctly sized.

B. Household Waste Recycling Centres (HWRC) (c. £31m, 17.9% of net costs)

Cost allocation moved to be based upon:

i. 50% Council Tax Base

Move is away from 100% based on Council Tax Base and better reflects that usage will be linked to access by cars.

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.

Some concern that these ‘proxy’ measures may still not reflect usage, hence proposal to review following a survey of uses in the 2018/19 financial year (as part of the Waste Composition Analysis work stream).

C: Authority Own costs (c. £5m, 2.9% of net costs) – including direct costs (such as salaries/running costs)

\(^1\) 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).
Equal share

Costs don’t vary much by activity, and are thus linked to an 11.1% each District allocation basis.

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.

Waste arisings

No change from the existing basis. It is intended that the majority of ‘regular’ waste will in future be included in the reprocured contracts and thus the value of this will fall further.

3.3 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 been 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.

3.4 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: -

<table>
<thead>
<tr>
<th>District</th>
<th>Sept 2017 projected levy requirement, revised LAM methodology and Sept 2017 tonnages</th>
<th>February 2017 projection (old IAA and Dec. 2016 tonnages)</th>
<th>Cost/ Saving due to tonnage changes</th>
<th>Cost/ Saving due to levy allocation methodology changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolton</td>
<td>20.430</td>
<td>20.534</td>
<td>-0.136</td>
<td>0.032</td>
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<tr>
<td>Bury</td>
<td>14.076</td>
<td>13.879</td>
<td>-0.086</td>
<td>0.283</td>
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<tr>
<td>Manchester</td>
<td>30.417</td>
<td>32.985</td>
<td>-0.955</td>
<td>-1.613</td>
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<tr>
<td>Oldham</td>
<td>17.944</td>
<td>17.567</td>
<td>0.515</td>
<td>-0.138</td>
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<tr>
<td>Rochdale</td>
<td>15.743</td>
<td>15.849</td>
<td>0.023</td>
<td>-0.129</td>
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<tr>
<td>Salford</td>
<td>20.526</td>
<td>21.133</td>
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<td>-0.475</td>
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<td>Stockport</td>
<td>20.958</td>
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<tr>
<td></td>
<td>Tameside</td>
<td>Trafford</td>
<td>Total</td>
<td></td>
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<td>15.524</td>
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<td>1.216</td>
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3.5 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.

3.6 Subject to these proposals being recommended for adoption by each District it is then necessary to seek agreement before the 31st December 2017 of the new LAM. That in turn will allow the 2018/19 Levy to be set by the GMWDA (8th February 2018) using the new LAM basis.