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Funding and The Levy – Future Options

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1.1 Introduction

Local Partnerships were asked as part of the wider strategic waste review to consider how funding and the levy mechanisms might be changed, the request was stated as follow “The review will examine the current District Levy mechanism (recognising that any change to the levy requires unanimous approval of all the Authorities in the MRWA) and Halton’s financial and legal position and make recommendations re how it may be improved to incentivise the necessary efficiencies and financial savings across the city region that will drive the achievement of our waste/environmental objectives.”

Previous sections of this review have identified the potential for savings and efficiencies in a range of areas and these can be summarised as:

- in operational management and delivery e.g. round optimisation, rationalisation of depots etc.
- that accrue from the enhanced scale of the operations, common purchasing, adopting best practice etc.
- leveraging new commercial opportunities e.g. delivering new recycling infrastructure to support the local circular economy
- appropriate use of disposal facilities
- finally there are savings that come from the refinement of the organisation and management arrangements

These conclusions support the case for greater consolidation and amalgamation of the existing services into a more integrated body in order to drive out maximum value and enable a more efficient response to change in the future.

This next section therefore explains the current funding mechanism through the levy, considers alternatives and describes what a new funding mechanism might look like in a fully integrated Joint Waste Management body including collections and disposal.

1.2 Current Levy

The levy is a mechanism for recovering the costs of recycling, treatment and disposal of waste collected by the Districts. Merseyside Recycling and Waste Authority (MRWA), who manage these contracts, incur these costs and then reallocate them to the Districts through the levy.

The levy itself cannot change these costs, which are determined by the payment terms of the contracts themselves and the tonnage of waste collected, but is simply a formula for reallocating them back to the Districts. The current reallocation has been established on the principle of the polluter pays¹, i.e. the Districts are charged according to the tonnage of waste they collect, the larger that tonnage the higher that District’s levy. This is in effect an incentive to reduce the tonnage of waste collected.

The levy for each District is calculated using a formula that was agreed unanimously (Halton pay according to a separate agreement as they are not part of MRWA). The formula currently applied has been adapted from a basic formula laid out in the regulations² with the aim of providing as fair and equitable allocation of costs back to each District as possible.

The formula can be simply stated as:

Tonnage based costs + recycling credit costs + population based costs + or – abatement =
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¹ As set out in the Joint Waste Strategy for Merseyside and Halton

² The Joint Waste Disposal Authorities (Levies) (England) Regulations 2006 Section 4 Apportionment of Levies

Total cost of levy

The tonnage based costs are the sum of the treatment, landfill and recycling costs divided by the total tonnage to give an average price per tonne; this means that there is no differentiation between treatment, landfill and recycling costs from the District's perspective. The recycling credit costs are the tonnes of waste not sent to MRWA for treatment such as green waste; this is determined by a formula and does not necessarily reflect the actual cost of treatment. The population based costs are those costs that are not attributable to an individual District's tonnages such as household waste recycling centres (HWRCs), closed landfill sites and the administrative costs of the Authority divided by the population for each District.

The abatement provides the means for adjusting tonnage figures. When the budget is set it uses historical tonnage figures but forecast costs. So for example the 2016/17 budget is based upon tonnage figures from 2014/15 but costs forecast for 2016/17. The abatement is then used to adjust these figures once the 2015/16 tonnage figures are known. There is therefore a two year lag between the budget and the actual figures.

This situation is not ideal and introduces some distortions into the way the levy is allocated. For example if one District commits significant effort to decrease the tonnage of waste they collect by a higher proportion than all the other Districts it is not rewarded according to the total amount it has reduced but by the average for all Districts. At the same time the cost reduction that the District might anticipate from reducing their tonnage of waste may be cancelled out by increases in costs for other unrelated parts of the service that have been budgeted for the year ahead. This can appear rather disheartening.

A further factor is that there is no differential between the costs of recycling waste compared to the cost of residual treatment or landfill; they are both charged at the same average cost i.e. the tonnage based cost as described above.

A further complication is that the residual and recycling contracts have banded prices (see below) this means that a reduction in tonnage may have the perverse effect of increasing the average price per tonne of the waste, which then appears to the authorities as a higher average price per tonne. This would not matter if the cost of the two services was the same but generally recycling has been cheaper than residual treatment. There is therefore currently no incentive to recycle more waste.

Consequently the charging system itself can hinder the performance of the wider LCR as individual authorities may, understandably, choose to make a decision (about collection services) solely based upon achieving the best outcome for themselves, which may in fact include doing nothing. The rest of the review considers alternatives to the current funding mechanism and what might be devised to provide a more effective system for the LCR in the light of the wider strategic review.

It is worth noting that other Waste Authority's use different formulas that they have adapted to their particular requirements, some are very similar to the MRWA arrangements others have increased the cost of residual waste disposal and reduced that of recycling (in comparison to the contractual costs) in order incentivise recycling and waste reduction. Whereas others have chosen a menu of prices for different waste streams to more accurately reflect the forecast market cost of disposal.

1.3 Future funding options

The levy funding mechanism was introduced in 2006 at a time when devolution and the prospect of regional authorities had not been contemplated. At the same time policy was not so heavily directed at recycling and landfill diversion and landfill tax was a fraction of its current level.

Since then there have been considerable changes occurring both in waste management policy and local government organisation.

Without labouring the point the potential options for the levy have been considered and recorded in some detail by MRWA. Table 1 draws on MRWA's assessment which sets out the pros and cons of a series of options with one or two minor changes. It will be seen from this table that none of the options are completely satisfactory. The critical point is that these evaluations have been based around the assumption that the authorities remain working as disparate organisations and not as a joint waste authority (JWA). If the collection authorities combine together as a JWA then the situation changes significantly. In taking this step the boundaries between the authorities dissolve, performance for recycling and other environmental measures is undertaken at the LCR level and



service levels provided to the public would be based on a single collection policy as set out in Appendix 2. This would mean that eventually every household would receive the same bins, frequency of collection etc.; it would be a uniform service over the whole region.

This would then favour a funding mechanism based on population. This approach removes the distortion of using tonnage-based information that is 2 years out of date but maintains the principle of the “polluter pays” but at a regional level. Any campaign or change in the waste service that reduced cost would be carried out on a regional basis and then flow through equally to all the authorities. In fact this would facilitate more targeted use of resources to address specific issues in particular areas or groups of the community be that enforcement, education or wider communications.

Ultimately this would be a far fairer system, simple, easy to understand, easy and far cheaper to administer, fewer time lag issues and as population tends to change slowly it should be predictable without many shocks.

The alternatives as the options demonstrate in Table 1 will always remain cumbersome and questionable as to their fairness.

Consequently its is recommended that in moving towards a JWA a transition plan is developed for introducing this new funding approach so that authorities have a clear picture of what the implications will be.



Table 1 Possible levy mechanisms

Levy mechanism	Pros	Cons
<p>Statutory basis</p> <ul style="list-style-type: none"> Tonnage based charge for tonnage based costs (household waste) Tonnage based charge for non-household waste tonnage costs Non tonnage based costs recovered on the basis of a Council Tax equivalent (Band D properties) 	<ul style="list-style-type: none"> Largely as above Council Tax base changes slowly (usually) dampening the effects of changes in tonnages 	<ul style="list-style-type: none"> Largely as above Transitional issues moving to a Council Tax base. Equity issues over whether Council Tax base is less or more equitable basis than population No mention of abatement – so no ‘reconciliation’ to ensure equity. No incentive to recycle
<p>Agreed tonnages</p> <ul style="list-style-type: none"> The WDA and Collection Authorities agree an annual amount of tonnes they will dispose of – tonnage based costs are allocated on that basis If tonnages arrive from a district that are in excess of the agreed amount – then they are charged for on the basis of the additional costs incurred by the WDA If lower tonnages are received then a discount is provided to the districts based on the cost saving to the WDA A population based charge is also levied for the costs of running/maintaining the WDA and for historic costs – for example closed landfill sites 	<ul style="list-style-type: none"> Predictable levy for Districts Clarity over the cost of tonnages Additional tonnes are charged for directly – individual districts will have a good understanding of the level of tonnages they are sending to the WDA – and so will understand whether they are likely to be charged more Where districts are able to achieve lower tonnages then a discount is offered – incentivises lower tonnages No such issues re. changes in tonnages relative to others. 	<ul style="list-style-type: none"> Cost of additional charges/discounts needs to be calculated in advance – there is likely to be a year end reconciliation/imbalance Tonnages need to be agreed/monitored closely to ensure ‘no surprises’ at year end. Councils might have unexpected tonnages due to one off events and could be significantly impacted if “excess” tonnage charge too penal Timing of information flows Transitional issues remain No incentive to recycle over disposal in WDA system
<p>Differential tonnage rates</p> <ul style="list-style-type: none"> A levy based in charging for tonnages at differential rates based in the type of waste being treated. Non tonnage based costs are allocated on the Council tax base MRWA may be able to do this via the Waste Flows from residual & MRFs – need to ensure that granularity of flows is both reasonable and understandable. 	<ul style="list-style-type: none"> Clear to see exactly what waste flows result in what charges. Clear incentive for collection Authorities to put their efforts into minimising the waste streams that cost the most. Aligns with JRWMS Rates could be based on actual costs thereby increasing efficiency (downward pressure) 	<ul style="list-style-type: none"> Timing appears to remain an issue – with tonnages not finalised until well after the budget cycle Complexity – for each Council to monitor and manage multiple waste streams as well as for the Authority to do so would be likely to mean changes in collection arrangements as well as a significant increase in the amount of admin on all sides (including all the contractors). Transition issues would be challenging. Moves towards charging for a service rather than paying for an Authority Reduced predictability due increase exposure to natural waste variations

<p>Current</p> <ul style="list-style-type: none"> • Non tonnage based charges allocated on population basis • Tonnage based charge for tonnage based costs • Tonnage based District recycling credits • Budget based on prior year tonnage data • Adjustment annually to account for impact of actual tonnages as the information is available 	<ul style="list-style-type: none"> • Agreed by Councils • Transparent • Polluter pays principle means that those Councils with larger tonnages pay more, those that reduce tonnages pay less • Equity over non-tonnage based charges as they are allocated according to the population in each District • Predictable – populations change slowly – tonnages can be estimated • Incentivises non Waste Authority recycling by district councils via credit mechanism 	<ul style="list-style-type: none"> • Two year time lag in tonnage information used to set budget and the 'adjustment' to equalise the effects • Not seen to immediately benefit the Districts that reduce their tonnages – due to delays in recognising actual impact of reduced tonnes. • As one District reduces tonnes another may go further – so the first does not see the benefit. • Can encourage Districts to retain waste with intrinsic value (e.g newspapers) – increasing the average cost per tonne of the remainder • Does not incentivise individual districts to increase recycling as their investment is only reflected in the average cost per tonne, rather than leading to a significant change in the levy charged as a result of changing behaviour. • Tonnages can fluctuate significantly both for an individual District and between Districts – predictability suffers. • Credit mechanism leads to circular flow of funds
<p>Current – with change to tonnage year.</p> <ul style="list-style-type: none"> • The current methodology uses a tonnage year that ends on 31 March but which is not agreed until the end of September. The impact of this is that in preparing budgets the information used is effectively two years out of date – relative to the budget year in question. By moving the tonnage year – say November to October there is more likelihood that the most recent 12 month period could be taken into account in the next budget round. • Remainder of non-tonnage based costs on same basis as now. 	<ul style="list-style-type: none"> • The effect of this potentially would be that those Authorities who have taken steps to reduce waste tonnages could see the impact in the next budget round rather than waiting two years for the impact. That may incentivise further action in terms of waste prevention. • Less need for 'adjustment' to actuals. 	<ul style="list-style-type: none"> • Difficulty of agreeing to change the year and arrive at agreed figures. • Transitional arrangement issues – although that might be a shorter period. • Winners and losers – even on transition • Question over need for/treatment of abatement.
<p>Current but with increased recycling incentive</p> <ul style="list-style-type: none"> • Increase the value of recycling vs non-recycled tonnes – via a multiplier say – where for every tonne of recycled waste it counts 1.5 times in terms of tonne reductions re. total tonnages. 	<ul style="list-style-type: none"> • The impact would be to reduce costs to those Authorities putting more efforts into recycling and keeping waste tonnages lower. 	<ul style="list-style-type: none"> • Very notional – would need to be calibrated very carefully. • Impact and therefore transitional arrangements would be difficult to predict. • Lack of certainty – as Authorities may work very hard to increase incentivised recycling and thereby reduce income so rates may have to be adjusted in a reconciliation process • Admin costs of managing and 'auditing' the processes. • Winners/losers on transition



<p>Current but expanding population base cost to include fixed elements of MRWA contracts</p> <ul style="list-style-type: none"> Given that elements of the RRC and MRF contracts are fixed by GMT bands and guaranteed income. These elements brought in to the population based cost Tonnage based cost for variable elements in the contracts 	<ul style="list-style-type: none"> Costs become more predictable as larger proportion linked to fixed cost base Clear link between contractual costs and rates charge in levy Adjustments due to actual tonnages likely to be smaller 	<ul style="list-style-type: none"> Possibly more muted pressures to recycle or minimise as marginal costs in variable contract bands are lower value Winners/losers on transition
<p>Tonnage only</p> <ul style="list-style-type: none"> Remove all reference to population in terms of allocating costs – all based on tonnages 	<ul style="list-style-type: none"> Would incentivise waste minimisation as tonnage based element would be transparent Could include good/bad tonnage elements or even a menu based price approach (all admin, closed landfill, HWRC costs included in rate per tonne as overheads) 	<ul style="list-style-type: none"> Equity issues – the costs of closed landfill sites, for example would end up being based in a current tonnage base that may bear little relation to the origin of the costs in the first place – here population or Band D CT are more reasonable. Still retains a time lag – so the benefit of introducing measures to reduce tonnages is not felt immediately – but up to two years later. Transition issues with Winners and losers
<p>Population only</p> <ul style="list-style-type: none"> Divide the levy among Districts by population / or Band D CT 	<ul style="list-style-type: none"> Simple Easy to understand Easy to administer Fewer time lag issues Population tends to change slowly. 	<ul style="list-style-type: none"> Equity Fails to take into consideration the polluter pays principle. Fails to incentivise waste tonnage reductions or minimisation. Transitional issues might be significant
<p>Fixed at current cost proportions</p> <ul style="list-style-type: none"> For the amount of time that MRWA can freeze the costs of the Authority freeze the levy at current levels 	<ul style="list-style-type: none"> Simple Predictable Easy to administer 	<ul style="list-style-type: none"> Equity – the Councils that reduce and minimise waste would not get any benefit – even via a time lag. No incentive to do any more to minimise or reduce waste arisings. Equity issues when the levy basis is unfrozen – even if it is a return to existing methods – over a time period there would be winners and losers – would need a new transitional arrangement to move away from this basis. Could only be relatively short term due to longer term equity issues
<p>Increase each DC in line with MWDA increases</p> <ul style="list-style-type: none"> As before but longer term – in that MRWA costs will go up over time – each Districts contribution rate as a % of the total costs could be fixed at a point in time. 	<ul style="list-style-type: none"> Simple Easy to administer Predictable for Districts 	<ul style="list-style-type: none"> Equity – the Councils that reduce and minimise waste would not get any benefit – even via a time lag. Would not lead to any real incentive for individual Districts to work towards minimisation and reduction Could only be relatively short term due to longer term equity issues Winners under former arrangements would be losers under this arrangement

Contact details

Duncan Powell, Director, Local Partnerships

Email: duncan.powell@local.gov.uk

Tel: 020 7187 7379

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