

**MRWA LEVY MECHANISM**  
**WDA/16/21**

**Recommendation**

That:

1. Members are asked to note the report and instigate discussion at their host authority to see if a new consensus on the Levy can be reached.

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**MRWA LEVY MECHANISM****WDA/16/21****Report of the Treasurer****1. Purpose of the Report**

- 1.1 The report is provided in response to Members' request at the last Authority meeting (23<sup>rd</sup> April 2021) for information on the Levy mechanism and how charges to Councils may be different if waste is recognised as having differential values and costs. The request also asked for the report to include an initial assessment of how carbon-based measures might be built into a future Levy mechanism.

**2. Background**

- 2.1 The MRWA Levy is a tax on Councils for the costs of disposal of waste and the Authority.
- 2.2 The Levy Mechanism is established by statute and is agreed by constituent Councils by consensus; a statutory fall-back exists should there be no agreement.
- 2.3 The Levy mechanism is established by 'The Joint Waste Disposal Authorities (Levies) (England) Regulations 2006'.
- 2.4 The apportionment of the Levy is set out in section 4 of the regulations.
- 4 (1) (a) sets out that the levy may be apportioned in such proportions as all the constituent Councils may agree; which is how the current Levy mechanism works, by unanimous consent.
  - 4 (1) (b) sets out how the Levy should be apportioned if there is no agreement; i.e. the Statutory default.
- 2.5 For clarity, the effect of the legislation is that MRWA has no powers to impose or set a Levy Mechanism, that is a matter for the constituent Districts Councils, who will need to reach a unanimous agreement on the way forward. If there is no consensus there can be no change. MRWA may play a role in providing and commenting on proposals but cannot implement any change by acting on its own.

### **3. The current Levy Mechanism**

- 3.1 The Current Levy Mechanism is as agreed by consensus of the constituent District Councils, and can be set out in simple terms as follows:

**(Tonnage based costs)**

**+ (Recycling Credit Costs)**

**+ (Population based costs)**

**+ or – (abatement)**

**= TOTAL COST OF LEVY**

- 3.2 The tonnage based element of the Levy is where all the costs of tonnes directly delivered by Councils to MRWA facilities (whether residual or recycled waste) are identified and then divided among the Councils according to the most recent agreed tonnages actually delivered by the Councils. (Because tonnes of residual and recycled waste are counted together there is little incentive for any Council to improve performance unilaterally as there is little direct benefit to them.)
- 3.3 Where Councils deliver recycling services outside the MRWA contracts (e.g. green waste), they can claim recycling credits as a payment from MRWA; the costs of these recycling credits are added to the cost of the MRWA Levy (creating a circular flow of funds).
- 3.4 Other costs which cannot be allocated to any single Council, e.g. HWRC costs, Closed Landfill site management, administration of the local authority; are allocated across District Councils on the basis of their populations.
- 3.5 The abatement enables the effect of over or under estimates of tonnages provided by Councils for budget purposes to be adjusted for in the next year so that there is equality in overall terms (i.e. an under estimate of tonnes by a Council compared to an higher actual tonnage will result in an additional cost to that Council in the 'abatement' part of the Levy.

### **4. The Statutory Default Levy Mechanism**

- 4.1 The Statutory Default sets out the following:

- Tonnage based costs, whether for disposal or treatment of household waste shall be apportioned on the basis of the tonnage of household waste delivered by each Council in the last complete financial year for which there is data.
  - All other costs shall be apportioned between the Councils by reference to the relevant proportion of the Council Tax Base for each Council (in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992. The relevant proportion is known as the equivalent of Band D properties for Council Tax purposes. The costs apportioned under this Band D equivalent include for example; HWRC costs, Closed landfills and the costs of the Authority.
- 4.2 For clarity, this would mean that for those Councils with a Council Tax base that had a greater number of the higher banded properties their Levy would be likely to increase.

## **5. Levy Mechanism Changes**

- 5.1 If Councils wish to change the Levy Mechanism they must agree a way forward, by consensus. The change to the Levy Mechanism is not within the Statutory powers of MRWA but can only be achieved by the Councils working together to agree a change unanimously.
- 5.2 If Councils wish to change the Levy Mechanism then it is important for them to consider the objective they are trying to achieve through the mechanism. If Councils wish to achieve equity or fairness, they all need to agree what they all mean by that. If the Councils want to improve re-use, recycling and reduction of waste and / or Carbon reduction they need to agree that this will be their objective and how to achieve it.
- 5.3 In any change of levy, the Councils will need to understand that there are likely to be financial “winners” (those that end up paying less) and financial “losers” (those that end up paying more). It has been difficult to gain consensus over any change to the Levy mechanism in the past because the potential financial “losers” have been unable to support change. In order to gain consensus any proposal to change the Levy mechanism is likely to need to also include a set of transitional arrangements (whether over a three year or a five year period) to help those authorities who are adversely affected make the transition. This approach would require the so-called “winners” to give up some of their advantage over the transition period to enable a different system to be implemented on an incremental basis.

- 5.4 In previous discussions of potential Levy Mechanism changes in each Council's financial position and the absence of agreement on any way to address the transitional arrangement has confounded taking any proposals forward.

## **6. Potential Levy options**

- 6.1 There are any number of potential Levy options, for those discussed below the relative impact on each of the constituent Councils is set out in the tables in Appendix 1 to this report. One thing that becomes clear on review is that for each option there may be different winners and losers and that the options are often mutually exclusive.

### **Residual Tonnage only**

- 6.2 This proposal involves allocating the whole of the Levy to Councils on the basis of their residual tonnage only.
- 6.3 The effect of this option is to charge the whole of the Authority costs on the basis of the total tonnes of residual waste each Council delivers to MRWA for treatment; this includes for example the costs of:
- Residual waste treatment
  - Recycled waste treatment
  - Waste transport and infrastructure
  - Household waste recycling centres
  - Waste reduction and education
  - Management of closed landfill sites
  - Administration and Authority costs
- 6.4 If all of these costs were allocated to Districts as part of a simple Levy, based solely on the amount of residual tonnes delivered to the Authority by Districts there would be an incentive for Districts to deliver less residual tonnage (the treatment of which is the most expensive tonnage cost). This would incentivise investment in waste prevention at District level; it would incentivise investment in re-use – so that valuable resources were used more than once rather than being thrown away; it would also incentivise investment in additional recycling at District levels – to keep resources away from the residual waste streams. Districts would have maximum flexibility to decide for themselves which form of diversion (prevention, re-use or recycling) offered the most cost-effective way to reduce waste. At the same time this approach would not dis-incentivise the investment made by MRWA through its own HWRC network as recycling there would

continue to contribute to reductions in the residual tonnes delivered by the Districts for treatment.

### **Good Waste Bad Waste**

- 6.5 This option has its basis in the current levy and splits the tonnage-based costs for constituent District Councils between the amount they send for residual disposal (Bad Waste) and the amount they send for recycling (Good Waste). It also means that the tonnage-based costs allocated are not simply an average cost but reflect the cost of disposal and the cost of recycling more accurately; other aspects of the formula, i.e. some costs allocated in the Levy on a population basis, would remain the same.

### **Good Waste Bad Waste – disincentivise residual**

- 6.6 This option once again splits the tonnage-based elements of the Levy between residual (Bad) waste and recycled (Good) waste. The proposal provides a further incentive to reduce residual waste – as well as charging the full costs of each residual tonne, a further amount is added to the cost – a penalty – to provide even greater disincentive to districts delivering residual tonnes (in the example at Appendix 1 an amount of £5 per tonne has been added to residual costs – although the amount used could be higher or lower). That amount raised through the additional charge for residual tonnes is then used to subsidise the costs of recycled tonnes. The intention of this approach is to penalise and disincentivise residual waste tonnages that are delivered and to use that charge to reduce the cost of recycling tonnes and so to incentivise an increase in the proportion of waste that is recycled.
- 6.7 A further iteration of both these approaches would be to bring forward the time period from which data is used. This would utilise the latest rolling 12 months rather than the last agreed 12 months annual data. This could make in-year actions by each Council have a greater impact on the Levy next year – but may lead to complexities as significantly more post year-end reconciliations would be required.

### **Population only**

- 6.8 The Local Partnerships Strategic Review suggested that this method for allocating the Levy could be the simplest and most equitable way of allocating the Levy; it did assume that all Councils would operate the same collection system – which is not the case. Whilst this may provide an equitable distribution of levy apportionment, it does little to incentivise behaviour at District Council level as Councils are not directly rewarded for reduction, reuse and recycling initiatives.

## **Levy cost comparisons**

- 6.9 The Levy mechanism comparisons are shown at Appendix 1 to this report. What they show initially is a comparison of the current year's actual Levy versus modelled figures for the proposals set out above.
- 6.10 The initial review of the outcomes shows that for one of the constituent Councils their financial position will be worse under each of the proposed new arrangements and so for that Council the best financial option may be to retain the existing mechanism (if there are no other significant tonnage/population changes to take into account).
- 6.11 The modelling also suggests that for two constituent Councils the best financial outcome for them would be to adopt a Residual Tonnage only based mechanism, whilst for the final two Councils their best financial position would be to introduce a Population based Levy apportionment.
- 6.12 It should be noted that these outcomes are based on modelling for the year 2021-22 and that as tonnages and populations change over time different outcomes may arise.
- 6.13 If the results are reviewed the Levy proposals that have the closest groupings in terms of changes to District Levy charges are the options which include looking at Good Waste and Bad Waste as the basis for the Levy, and the similar version that looks at Good Waste and Bad Waste with a built-in incentive for Good waste. If the Levy mechanism is to be changed it will require the support of all the constituent District Councils, it may be that taking forward one of the Good Waste / Bad Waste options could receive sufficient support for a consensus to emerge.

## **7. Prospective Levy options – Climate impact and carbon reduction**

- 7.1 In terms of addressing the financial issues and the potential for a different view of "fairness" in the Levy options, those set out above provide some illustrations of the issues. However, the Authority and the constituent Councils have all declared a Climate Emergency and it may be that the time for a Levy Mechanism on a different basis needs to be explored. If MRWA is to address issues of climate change and if Councils are to be incentivised to address issues of climate change, then the Levy Mechanism may need to better reflect the climate impacts of the types of waste collected and disposed of and the tonnages of each type of waste.
- 7.2 In a future Carbon Reducing Levy mechanism it may be more important to consider the lifecycle costs of the wastes being dealt with alongside re-use and recycling opportunities. Thereafter, the relative carbon impacts of the



different waste streams ultimately disposed of could be used to construct a Levy Mechanism on a different basis. So, for example, where high carbon producing wastes are sent to the EfW to generate power, in a future iteration of the levy those materials could be allocated a higher 'multiplier' in the Levy Mechanism than materials sent for recycling or with a significantly lower carbon footprint.

- 7.3 These options are explored in outline in Appendix 2 to this report, where some of the principles and complexities of the approach are considered in more detail. Because the proposed approach would become the revised Levy mechanism each element of the approach would need to be agreed by all constituent Councils before the Levy could be allocated on that basis (and in all probability any proposed approach would become significantly more detailed than the 'in principle' approach shown at Appendix 2 for illustrative purposes).
- 7.4 In order to implement a mechanism on this basis there would need to be at least an annual District by District Waste Composition analysis so that it was clear what each District was sending to MRWA for it to re-use, recycle and dispose of, with a climate/carbon ranking per tonne allocated for each waste stream identified. For each District each 'average' disposal tonne would be assessed annually as containing different fractions of waste – and so for each District there would be a different annual multiplier. This would provide significant financial incentive to de-carbonise waste at District Collection levels.
- 7.5 There would need at the same time to be strong evidence of the relative climate impact/carbon metrics for each waste stream, so that constituent Councils could work with their householders to minimise the waste arisings overall, and to reduce the waste in the most carbon challenging streams as much as possible.
- 7.6 The metrics to support this approach to the MRWA levy are not yet in place, and to do so would require the agreement of the District Councils, both from a logistics perspective, in terms of measuring waste flows and also in terms of agreement to the relative multipliers for each part of the waste stream. They would also need to agree from a Levy Mechanism perspective as that remains a matter for the District Councils and is not directly for MRWA. Whilst MRWA may propose a way forward it is for the Councils to agree among themselves if they wish to make a change and how.

- 7.7 Should there be agreement to this kind of approach there would be likely to be some increases in the costs of the Authority as it may require managing greater volumes of information from all the District Councils.

## **8. Proposed way forward**

- 8.1 In considering the options for a change to the Levy mechanism it is recognised that the Authority has no right to establish any different mechanism, that is a matter for the constituent Councils.
- 8.2 Members are asked to seek views from their respective Councils on whether the options for changes to the Levy Mechanism should be taken forward, and to see whether any consensus emerges from this approach.
- 8.3 In the view of Authority officers, the simplest, and most effective mechanism would be to implement an apportionment where all the Authority's costs were allocated on the basis of the total residual tonnes each Council delivered for treatment. That would incentivise reductions in residual waste, which would then also incentivise reduction, reuse and recycling, whilst at the same time Councils would continue to benefit from the HWRC infrastructure which provides significant opportunities for recycling across Merseyside. Where residual waste is discouraged and reuse and recycling is promoted, there would also be likely to be significant carbon benefits as a consequence.
- 8.4 Whilst this is the simplest and probably most effective mechanism, it is also recognised that the way the costs fall on Councils would change with subsequent increases or decreases for councils. Should any such change be proposed, it would need to be accompanied by a mutually agreed transition scheme so that those for whom the change was favourable could use their financial gain to offset the additional costs of those facing extra levy cost over an agreed three or five year transitional period.

## **9. Risk Implications**

- 9.1 There are a number of risks associated with any proposal to change the Levy Mechanism, including leaving it as it is. If the mechanism stays the same then the risk of a lack of any incentive to reduce, reuse and recycle (and thereby divert waste from the more expensive residual treatment) remains, while objections on the grounds of unfairness may be made.
- 9.2 For changes to the mechanism including good waste / bad waste options there are risks arising from the financial impacts on Councils which may need to be addressed via a transitional arrangement.

- 9.3 Should Districts wish to move to a Levy that takes more account of climate impact/carbon metrics, the risks lie in agreement of the metrics and the need for significantly increased data measurement and reporting so that the relative benefits of changing waste arisings and waste streams can be seen to have an impact.
- 9.4 Should the Collection Authorities make decisions about how they wish to proceed with the project there may be matters for MRWA Members to consider in more detail, particularly around the data flows and reporting.

## **10. HR Implications**

- 10.1 There are no immediate HR implications associated with this project. However, if the Authority agrees with the Councils to move to a Levy that requires a significant increase in data flows and management there may be a requirement for a review of the HR implications.

## **11. Environmental Implications**

- 11.1 The current levy does not provide a significant incentive to reduce waste, increase reuse or recycle more. A different levy mechanism, if agreed by constituent Councils, could provide a greater incentive to (and reward for) improving reduction, reuse and recycling which would be more likely to contribute to the City Region's Climate Action Plan, carbon reduction and zero waste approaches.

## **12. Financial Implications**

- 12.1 The financial costs of the options for changes would be felt by District Councils as some gain and some lose. In order to achieve a consensus for change it is likely that all councils, whether they gain or lose by moving to the new basis for apportioning costs, would have to accept transitional arrangements in order to provide a better, more climate-relevant Levy in the future.

## **13. Legal Implications**

- 13.1 Whilst MRWA can make proposals and support proposals for changes to the Levy Mechanism, it can make no changes; the powers to make Levy mechanism changes lie solely with the constituent District Councils.

## **14. Conclusion**

- 14.1 The District Councils pay for the costs of the whole system of household waste collection, treatment and disposal. The collection costs they stand themselves and, in the main, the treatment and disposal costs they pay through the Levy to this Authority (in its role as the statutory waste disposal authority).
- 14.2 The present Levy mechanism which apportions the costs of waste treatment and disposal by the Authority to the constituent Districts, is based on tonnage (of whatever kind) and population elements. Whilst the population element remains an equitable basis for cost apportionment of shared infrastructure, etc., the tonnage-based Levy element does not incentive or reward action by councils to prevent waste, re-use materials or increase recycling.
- 14.3 At a time when climate action is urgently needed, the retention of such a Levy cost apportionment method for waste would seem out of date and no longer fit for purpose.
- 14.4 Members are asked to note the report and instigate discussion at their host authority to see if a new consensus on the Levy can be reached.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.