Leicestershire County Council

CABINET – 16TH SEPTEMBER 2016

DRY RECYCLING CREDITS MEDIUM TERM FINANCIAL STRATEGY SAVINGS

REPORT OF THE DIRECTOR OF ENVIRONMENT AND TRANSPORT

PART A

Purpose of the Report

1. The purpose of this report is to advise the Cabinet of the outcome of the options appraisal to achieve the savings on dry recycling credits identified in the 2016 Medium Term Financial Strategy (MTFS) and to recommend the preferred option.

Recommendations

2. It is recommended that:

   a) The outcome of the options appraisal for achieving the necessary savings and the views of the Waste Collection Authorities (WCAs) are noted;

   b) Option 4 as set out in paragraph 32 of the report be agreed;

   c) The Director of Environment and Transport be authorised –

      i) to commence a procurement exercise to secure processing capacity for dry recycling by 1st April 2018,

      ii) following consultation with the Director of Law and Governance, to serve reasonable notice objecting to WCAs retaining dry materials for recycling with effect from 1st April 2018 or such other date as the Director of Environment and Transport shall determine for each WCA,

      iii) to issue directions to WCAs to deliver dry materials for recycling to the most appropriate facility made available under a new contract following the completion of a procurement exercise,

      iv) following consultation with the Cabinet Lead Member and the Director of Law and Governance, to enter into new local arrangements for incentive payments to financially compensate the

WCAs for reductions in residual household waste with such of the seven WCAs as he considers appropriate.

Reason for Recommendations

3. The preferred way forward, Option 4, offers the greatest potential savings for the County Council within a feasible timescale.

4. Authorising the Director to take the necessary actions to give effect to the decision will facilitate the implementation of Option 4 within the planned timescales.

Timetable for Decisions (including Scrutiny)

5. A report was considered by the Environment and Transport Overview and Scrutiny on 12th September 2016 and its comments will be reported to the Cabinet.

6. It is proposed that the new arrangements would come into effect from 1st April 2018.

Policy Framework and Previous Decisions

7. The MTFS 2015/16-2018/19 approved by the County Council on the 18th February 2015 identified a saving of £1m from a reduction in recycling credits for dry materials.

8. The MTFS 2016/17-2019/20 was approved by the County Council on 17th February 2016 and identified a saving from a reduction in funding for recycling credits for dry materials of £1,030,000.

9. Incentivising waste reduction and recycling is identified as a service transformation priority within the County Council's Transformation Programme objective to 'work the Leicestershire pound' – reducing cost and maximising funding available to the council and other bodies.

Resource Implications

10. The MTFS assumes net savings of £1,030,000 from recycling credits in 2018/19.

11. Modelling of a number of potential future options has been undertaken. The uncertain nature of the recycling market and other assumptions that need to be made in modelling over the long term mean that savings projections can only be given as a range. On that understanding, it is predicted that the proposals would result in savings of between £18.1m to £43.4m (under the preferred option of procuring capacity) over the period from 2018 to 2030.

12. The variations in the level of income that can be generated from different types of recycled materials mean that the actual net costs of recycling facilities (either procured capacity or self-operating) could vary significantly from one year to the next. This variation would need to be managed, perhaps through the use of a specific reserve, or within the wider Waste Management budget where possible.

13. Further detail, including the current value of recycling credit payments, is given in Part B of this report below.

14. The Director of Corporate Resources and the Director of Law and Governance have been consulted on this report.

Circulation under the Local Issues Alert Procedure

15. This report is being circulated to all Members of the Council via the Members' News in Brief Service.

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PART B

Background

16. The recycling credit scheme was introduced by the Environmental Protection Act 1990 (the EPA) to incentivise the recycling of household waste by Local Authorities and by third parties. The EPA places a duty on the County Council, as a Waste Disposal Authority (WDA), to pay waste disposal credits to the District Councils as Waste Collection Authorities (WCAs) when they divert and retain waste from the household waste stream for recycling. The credit payment represents a portion of the net saving of expenditure for the County Council where such waste has not been disposed of through the household waste stream (e.g. to landfill).

17. The EPA (section 48(4)) allows the WDA to object to a WCA retaining waste for recycling where the WDA has made arrangements for that waste to be recycled. Under sections 48(1) and (1A) of the EPA, the WCA must deliver waste to such places as the WDA directs.

18. The Clean Neighbourhoods and Environment Act 2005 introduced increased flexibility for local authorities to develop joint working arrangements. The amended EPA (section 52(1B)) allows the WDA and the WCAs to agree that payments of waste disposal credits do not need to be made.

19. The current value of the recycling credit is £52.91 per tonne and the County Council's 2016/17 recycling credits budget is £3,179,400. The recycling credit value (per tonne) increases by a fixed rate of 3% each year.

20. The 2016 MTFS identifies savings of £1,030,000 from the recycling credits budget for dry materials in 2018/19.

21. Dry materials include, for example: paper, card, plastics, steel and aluminium cans, glass, textiles and drinks cartons.

Recycling Credits paid to WCAs - Current Position

22. The WCAs operate kerbside dry recycling collections as well as providing 'bring bank' recycling facilities. In some cases, the WCAs also provide commercial recycling collections (i.e. for businesses).

23. Each of the seven District Councils in Leicestershire have their own collection arrangements for recycling. Some collect weekly, others fortnightly, and the types of materials accepted and the way in which they are collected by each WCA differ.

24. The WCAs currently receive recycling credits for dry recycling as outlined in the table below:

Waste Collection Authority	Tonnes of Kerbside Collected Dry Recycling in 2015/16	Tonnes of Bring Site Collected Dry Recycling 2015/16	Recycling Credits Paid in 2015/16
Blaby DC	8588	474	£465,503
Charnwood BC	15515	384	£816,730
Harborough DC	8416	46	£434,699
Hinckley and Bosworth BC	8601	347	£459,671
Melton BC	5337	1	£274,222
North West Leics DC	6899	286	£369,105
Oadby and Wigston BC	3365	0	£172,844

Note: Tonnage figures are net of contamination

25. Depending on individual contractual arrangements, the WCAs may receive income for the sale of recyclable materials in addition to recycling credits received from the County Council.

Summary of Options Considered

26. A range of options for achieving the savings as set out in the MTFS were considered and consultants Frith Resource Management (Frith RM) were appointed to carry out an independent appraisal of these options.

27. The WCAs were involved in the options appraisal process through a formal consultation process as outlined in paragraph 37 below.

28. The following long-list of 8 options was considered:

1) Baseline – i.e. to continue with current arrangements.
2) Reach local agreements (individually with each WCA) to reduce the value of the recycling credit.
3) Develop and agree a new payment model to incentivise a reduction in residual waste / increase in recycling.
4) The County Council to procure capacity for all WCA dry recycling and direct the WCAs to use it.
5) The County Council to procure capacity for all WCA dry recycling and agree a mechanism for cost / income sharing.
6) The County Council to build a materials recovery facility (MRF), individually or with another authority, and direct the WCAs to use it.
7) The County Council to develop a MRF with the WCAs and agree a mechanism for cost / income sharing.

8) The County Council and the WCAs to develop a long term strategic private / public partnership with a private sector company for MRF provision.

29. Four of the options were shortlisted for more detailed analysis and these are outlined in paragraphs 30 to 33 below.

30. **Option 2: Reach local agreements to reduce the value of the recycling credits.**
This option would involve a set percentage reduction in the value of the recycling credit to meet the saving of £1.03m in 2018/19. As this would be a departure from the recycling credits mechanism as outlined in the EPA, this could only be implemented with agreement from each individual WCA.

31. **Option 3: Develop and agree a new payment mechanism to incentivise reduction in residual waste/increase in recycling.**
This option would involve the development and agreement of a new payment model to incentivise a reduction in residual waste / increase in recycling. This would need to be implemented in conjunction with another option. During the consultation process the County Council and the WCAs agreed that this option would be appraised separately by the Leicestershire Waste Partnership (see paragraphs 48-53 below).

32. **Option 4: The County Council to procure capacity for all WCA dry recycling and direct the WCAs to use it.**
This option would involve the County Council procuring an outlet for all of the WCA dry recycling. As the WCAs would no longer be retaining waste for recycling no recycling credits would be payable.

33. **Option 6: The County Council to build a MRF (on its own or with another authority) and direct the WCAs to use it.**
This option is similar to Option 4 but would involve the County Council building a MRF rather than procuring MRF capacity from the market. The option was considered as 2 ‘sub-options’: 6a. the County Council would build a MRF alone and 6b. the County Council would build a MRF with another local authority or authorities.

34. Options 4 and 6 would require the WDA (the County Council) to issue an objection to each WCA retaining dry materials for recycling and then direct them to utilise the County Council's contracts. This would remove the requirement to pay recycling credits for this material. However, the County Council would be responsible for paying the recycling facility gate fees (the charge levied on waste received at a waste processing facility) for any dry recycling that the WCAs collected.

35. The implementation of option 4 or option 6 would result in an additional loss of income for any of the WCAs who have contractual arrangements where they receive income from the sale of recyclable materials.

36. Depending on the availability of MRF or waste transfer facilities in each WCA area, the County Council is likely to be required under section 52(10)

of the EPA to pay ‘tipping away’ fees to one or more WCAs, i.e. to make a reasonable contribution towards the expenditure reasonably incurred by a WCA in delivering waste to a place which is unreasonably far from that WCA’s area. The Cabinet has previously (July 2001) agreed that a 'reasonable distance' should be defined as 5 miles from the relevant WCA boundary. This distance is currently being used to determine tipping away fees for residual waste and other WDAs use this as a benchmark.

Consultation

37. Formal consultation with the WCAs was undertaken between May 2015 and March 2016. An outline of the consultation process is shown in the table below:

Date	**Consultation Activity**
27th May 2015	Letter from the Director of Environment & Transport (E&T) to all WCAs formally launching consultation process.
10th July 2015	Meeting with WCA representatives.
30th July 2015	Consultation workshop 1.
18th August 2015	Letter from the Director of E&T to all WCAs confirming the long-list of options to be appraised.
10th September 2015	Consultation workshop 2.
22nd September 2015	Letter from the Director of E&T to all WCAs requesting comments on the initial high-level appraisal of options.
23rd December 2015	Letter from the Director of E&T to all WCAs confirming the shortlisted options.
1st February 2016	Meeting with WCA representatives.
17th February 2016	Letter from the Director of E&T to all WCAs reconfirming the shortlisted options and requesting formal responses on each option including the impact on waste service provision and updated contractual information on contractual arrangements.
30th March 2016	Close of consultation.

38. A summary of WCA responses to the final shortlisted options are included in Appendix A to this report. Full letters of response are included in Appendix B.

39. All WCAs identified Option 2 as their preferred option as it would minimise the reduction in recycling credits paid. Other responses from the WCAs varied although recurrent themes included the potential for efforts to control contamination being reduced and changes to recycling collection services (including downgrading of services).

40. Consultation responses were taken into account by Frith RM in the modelling used in the final options appraisal.

Financial Analysis and Deliverability

41. Financial analysis of each of the shortlisted options was undertaken by Frith RM to assess the savings potential of each option. Key assumptions are summarised in Appendix C.

42. Financial analysis was undertaken over the long term to 2030. The market for recyclable materials fluctuates significantly and sometimes unpredictably over time. The analysis was undertaken over a longer time frame to take account of these fluctuations and understand the long term impacts of implementing each option.

43. The findings of the financial analysis are summarised in the table below. The predicted savings are shown as a range, reflecting sensitivity analysis.

Option	Net Savings (2018/19)	Total Net Savings to 2030
2. Local agreement	Up to £1.7m	range £1.6m - £27.6m
4. Procure capacity, direct WCAs	Up to £2.6m	range £18.1m - £43.4m
6a. Build MRF alone, direct WCAs	Up to £2.3m	range £13.5m-£33.9m
6b. Build MRF with others, direct WCAs	Up to £2.6m	range £13.3m-£37.3m

44. Option 2 (local agreement) was modelled assuming a 20%, 28.9% or 50% reduction in the value of the recycling credit with various sensitivities. To achieve the required MTFS saving, the recycling credit value would need to decrease by approximately 28.9% subsequently rising with RPI (based on an assumption of no change to recycling levels).

45. Option 4 (procure and direct) delivers the highest level of estimated net savings of £18.1 - £43.4m over the period to 2030. It should, however, be noted that due to the unpredictable nature of the recycling market, there is a risk that the level of savings may vary during this period.

46. Each option was also assessed for deliverability. The timescales for delivery of infrastructure (i.e. Options 6a and 6b) are extremely tight and are unlikely to be achievable by April 2018. Option 6b in particular would require a period of negotiation to develop a facility in partnership with another local authority or authorities. This option may be considered further should suitable joint working opportunities arise in the future.

47. The main reason that Option 4 suggests greater savings than Option 6 is that the MRF that would be built under Option 6 to manage Leicestershire’s waste would be a relatively small facility, or one operating

below optimal capacity. It is assumed that procuring capacity would be from a larger MRF or one working at closer to optimal efficiency levels.

Incentive Payments for Reductions in Residual Waste

48. The Leicestershire Waste Partnership (the Partnership) is composed of the County Council and the seven Leicestershire District Councils who work together to deliver a joint waste management strategy.

49. The Partnership has worked with consultants Frith RM to consider an incentive payment from the County Council to compensate the WCAs for absolute reductions in residual household waste – Option 3. This would take into account kerbside residual waste and residual waste collected at the County Council's Recycling and Household Waste Sites (RHWS).

50. As stated previously, incentive payments would be implemented in conjunction with another option; it is not a 'standalone' option.

51. The incentive payments would come from savings made in the waste budget by the County Council, as the WDA and would be intended to offset (partly or wholly) the cost to the WCA of introducing measures to reduce residual household waste.

52. The assessment concluded that there were a number of strengths in this approach as the mechanism would reinforce the waste hierarchy[1] from the top and would encourage innovation to achieve long term waste reduction.

53. It is, therefore, recommended that the Director of Environment and Transport is authorised to enter into local arrangements with individual WCAs to implement incentive payments as appropriate.

Conclusion

54. It is recommended that Option 4 (the County Council to procure capacity for all WCA dry recycling and direct WCAs to use it) is progressed in conjunction with Option 3, as appropriate. Option 4 offers the greatest potential savings levels over the period to 2030.

55. The County Council does not currently have contractual arrangements in place for processing capacity for dry recycling. Therefore, if the recommendations of this report are agreed officers will commence a procurement exercise to secure capacity with effect from 1st April 2018.

56. The County Council is required to be reasonable when issuing any notices of objection or direction to the WCAs. The Director of Environment and Transport wrote to each WCA during the consultation requesting details of their contractual arrangements for dry recycling. The Director also

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[1] The "waste hierarchy" ranks waste management options according to what is best for the environment. It gives top priority to preventing waste in the first place. When waste is created, it gives priority to preparing it for re-use, then recycling, then recovery, and last of all disposal (e.g. landfill).

requested that WCAs should ensure that their contracts have sufficient flexibility to accommodate early termination, service changes, and/or reductions in funding/contract value, and that the WCAs consult the County Council as the WDA before taking any commissioning decisions and keep it informed if there are changes to waste contracts.

57. Subject to agreement of Option 4, the Director of Environment and Transport will write to each WCA confirming the agreed approach and requesting updated details of contractual arrangements for dry recycling so that these can be taken into account when notices are issued.

58. It is proposed that any objection/direction is implemented with effect from 1st April 2018, where possible. Due to the WCAs' existing contractual arrangements it may be that implementation of Option 4 needs to be phased in over time. It is, therefore, recommended that power be delegated to the Director of Environment and Transport following consultation with the Director of Law and Governance to determine the most appropriate date for each WCA. The 'objection' notices would be issued to WCAs at the earliest opportunity in order to give them sufficient notice to bring their current contractual arrangements to an orderly end.

59. Once the procurement exercise is completed, notices will be issued directing the WCAs to deliver dry materials for recycling to the most appropriate facility under the County Council's contracts.

Risk Assessment

60. The potential risks associated with Option 4 have been given careful consideration. The key risks identified for the proposed approach are:

    a) Increased residual waste if WCAs downgrade recycling collections and material is diverted into the residual waste stream
    b) MRF gate fees are higher than predicted
    c) Increased levels of contamination in kerbside collected dry recycling if WCAs reduce efforts to control contamination
    d) Negative impact on partnership working approach due to reduced financial resources.

The impact of these risks (if they materialise) may vary although they are primarily linked to a failure to make MTFS savings or increased costs for the County Council (higher than baseline).

61. The County Council will continue to make every effort to ensure the continuation of good working relationships with the WCAs.

Background Papers

Report to the County Council on 18 February 2015 – Medium Term Financial Strategy 2015/16 – 2018/19

http://politics.leics.gov.uk/documents/s107608/BUDGET%20REPORT%20OF%20THE%20CABINET%202015.pdf

Report to the County Council on 17 February 2016 - Medium Term Financial Strategy 2016/17-2019/20http://politics.leics.gov.uk/documents/s116436/BUDGET%20REPORT%20OF%20THE%20CABINET.pdf

Report to the Cabinet on 31 July 2001 - Claim for Tipping Away Fees – Melton Borough Council and North-West Leicestershire District Council http://ow.ly/i4j4303ooFn

Appendices

Appendix A: Summary of consultation responses

Appendix B: Consultation response letters

Appendix C: Key assumptions

Appendix D: Equalities and human rights impact assessment

Equality and Human Rights Implications

62. An Equality and Human Rights Impact Assessment screening (attached as Appendix D to this report) was completed to assess the potential impacts of the implementation of Option 4. No equality or human rights implications are perceived at this stage. The WCAs will be responsible for considering any equality and human rights implications if any changes to the kerbside recycling collection services are proposed.

Environmental Impact Assessment

63. The Environmental Implications Tool was utilised to assess the possible impacts of the proposed approached to making savings on recycling credits for dry materials collected at the kerbside. Potential impacts were identified relating to increased amounts of waste being sent for disposal if WCAs downgrade kerbside recycling services or stop/reduce efforts to minimise contamination in recycling collections. This would also result in a decrease in the household recycling rate.

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