



Environment and Infrastructure Select Committee
5 October 2017

Proposals to change financial arrangements for waste management in 2018/19

Purpose of the report: Policy Development and Review

To feed into proposals prior to consideration by Cabinet in November 2017.

Introduction:

1. Over the last few years, Surrey authorities have made significant progress in improving the delivery and performance of waste collection and disposal services. All authorities in Surrey are continuing to explore options for how further improvements can be made through joint working.
2. In parallel to this the current system of financial transfers from SCC to the district and borough councils has become unaffordable and no longer provides the incentive for better performance that it used to.
3. This report sets out progress to date and next steps with regard to the above.

Current situation

Responsibilities for waste management

4. In two tier areas such as Surrey, the responsibility for managing waste is split between the County Council and the district and borough councils. SCC is the Waste Disposal Authority (WDA) and is responsible for the disposal and treatment of Surrey's municipal waste collected at the kerbside, and waste and recycling from Surrey's Community Recycling Centres (CRCs). This function is managed via SCC's 25 year PFI waste disposal contract with SUEZ.
5. The 11 district and borough councils are Waste Collection Authorities (WCAs) and are responsible for the collection of Surrey's municipal waste, which includes waste from households.

Partnership working

6. Surrey's authorities collaborate via the Surrey Waste Partnership (SWP) which helps the authorities to work towards delivering a joint strategy. This strategy was updated and adopted by all partners in 2015. The SWP pools money centrally and manages a wide range of joint initiatives to improve kerbside recycling performance and deliver efficient services.
7. SWP authorities have made significant progress since the partnership was formed in 2008. Waste collection arrangements have largely been aligned, the range of recycling materials collected has greatly increased, and food waste collection from houses is now universal.
8. These improvements have taken place whilst containing overall costs and maintaining high resident satisfaction levels, and have resulted in performance increases with the overall recycling rate rising from 35% in 2007/8 to around 57% today.
9. Four authorities have recently formed a new organisation called Joint Waste Solutions to manage their waste collection services. Collections have already started in Elmbridge and Woking, with Surrey Heath and Mole Valley starting next year. As agreed by Cabinet in December 2016, some SCC waste disposal authority functions are due to be integrated with Joint Waste Solutions later this year.
10. SWP is also working on proposals for new arrangements for a single partnership approach for managing waste in Surrey, which would integrate the governance of Joint Waste Solutions and the wider Surrey Waste Partnership.

Current financial arrangements

11. The way in which waste is managed in Surrey has resulted in a complicated set of statutory and non-statutory financial transfers, of around £11m per year, from the county council to borough and district councils, and the SWP. These are no longer affordable for the county council and are no longer incentivising improvements in recycling.
12. The majority of payments are in the form of recycling credits, the value of which increases by 3% each year. This increase has been greater than inflation for a number of years. SCC is only required to make a recycling credit payment to a WCA if they retain the material for recycling, or where SCC issues a new separation requirement.
13. Although the amount of waste dealt with has risen, the total cost of managing waste in Surrey has remained fairly static. SCC's share of the total spend on waste management in the county has increased significantly however, from around 60% in 2009/10 to 70% in 2015/16. This equates to an increase in costs of around £7m for SCC.
14. Since 2009/10, landfill tax has more than doubled from £40 per tonne to £86 per tonne in 2017/18. At the same time, energy from waste prices

have tracked landfill costs meaning that, despite landfilling a very small amount of residual waste, SCC's average disposal cost has increased from £71 per tonne in 2009/10 to around £110 per tonne today.

15. Financial pressures mean that SCC needs to make savings from its waste budget in the short term. The current programme of work at SCC includes contract savings and changes at CRCs, as well as the proposal to change financial transfers between the county council and district and borough councils as described in this report.
16. Following extensive discussions between authorities last year, district and borough councils agreed to a one-off contribution towards SCC's savings targets in 2017/18 totalling around £1 million. It is now intended that a greater permanent change to financial transfers will be made in 2018/19.

A new financial mechanism

17. Following a Cabinet decision in December 2016, SCC wrote to all district and borough councils in January 2017 stating its intention to take over the management of kerbside collected recyclables from January 2018 or as current contracts come to an end, whichever is sooner.
18. Managing kerbside collected materials centrally will enable Surrey authorities to engage with the market more effectively whilst developing a longer term management strategy. Taking ownership of recyclable material removes the statutory requirement to pay recycling credits, enabling the development of new financial mechanisms.
19. As well as delivering savings for SCC, the aim of introducing new financial mechanisms is to provide a stronger financial incentive to save the taxpayer money by encouraging waste reduction and increasing recycling.
20. Proposals for new mechanisms are currently being looked at by a task group of officers from seven SWP authorities. The task group has made recommendations for a new mechanism that incentivises reducing waste and increasing recycling in a way that is fair and equitable to all.
21. Whilst the details still being developed, some key principles have already been broadly agreed, and there are three key elements to the proposed new mechanism:
 - A **fixed (per household) payment** with the purpose of recognising the costs incurred by WCAs from introducing and running recycling services.
 - A **variable payment** which will be a mechanism for sharing any future savings from performance improvements between SCC and WCAs
 - Ongoing **funding for the Surrey Waste Partnership**

22. It is proposed that the fixed element of this mechanism would total around £3.2 million in 2018/19. It is important to note that this figure is based on the assumption that SCC has taken over the management of dry recycling from all of the WCAs. This means that SCC will be responsible for the costs of managing this material, assumed to be £40 per tonne, which have historically been met by the WCAs.
23. The current intention is for SCC to make a net saving of £4m from changing the financial transfers to WCAs. This would be phased in over a three year period, with £2m of savings in 2018/19, with a further £1m in each of the following two years.

Transitional arrangements

24. SCC has already taken over the management of dry recycling from Elmbridge, Spelthorne, Runnymede and Woking because their dry recycling contracts have recently expired. As a result, SCC has taken over paying the management costs (gate fees) for the dry recycling collected by these authorities.
25. The other WCAs still have time left on their current contracts and a number of these contracts include gate fees that are unlikely to be bettered under the current market conditions.
26. SCC is keen to ensure that the cost to the Surrey tax payer of managing materials is reduced as far as possible in the short term. The preference is therefore to allow current arrangements to run their course in order to avoid triggering any breakage costs. This would be on the basis that SCC and the district or borough in question can reach an acceptable agreement on financial transfer arrangements for 2018/19 onwards.
27. In such instances where a WCA may continue with their current dry recycling contract, transitional arrangements may be needed in order to ensure that all authorities are treated fairly and equitably. This may involve a payment from SCC to recognise the WCA's ongoing exposure to material management costs.
28. The methodology, which is currently being developed, needs to be fair to the WCAs that have already given their material to SCC as well as acceptable to those that still have ownership of their material.

Conclusions:

29. Significant improvements have been made in the last few years with regard to how waste is managed in Surrey. The Surrey Waste Partnership is continuing to develop new initiatives and explore opportunities for how further improvements and savings can be made through joint working.
30. New financial mechanisms for 2018/19 onwards will deliver savings for SCC and will provide an incentive for further improvements by sharing

future savings between SCC and district and borough councils in a fair and equitable manner.

Recommendations:

- a. It is recommended that Environment and Infrastructure Select Committee members note this report and make comments.

Next steps:

- SCC will continue to engage with the SWP, and individual councils as required, on the details of the new financial mechanism.
- The final proposal will be considered by SCC Cabinet on 28 November 2017.

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Sources/background papers:

- Cabinet Report: Developing a single waste approach, 13 December 2016
- Joint Municipal Waste Management Strategy, Revision 2 (2015)

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