



New ways of working in waste

New financial mechanisms – update for Surrey Leaders

September 2017

1. Introduction

- 1.1. There have been some major changes to waste management services since waste was last discussed at the Surrey Leaders' Group a year ago. Four authorities now manage their waste services jointly and have commissioned a joint collection contract, which has since been rolled out in Elmbridge and Woking, with Surrey Heath and Mole Valley to follow. A number of other authorities have also made big changes to their waste collection arrangements.
- 1.2. This changing landscape has prompted the authorities to look in detail at how they work together in order to deliver maximum benefit to the taxpayer. To this end, a series of one-to-one meetings took place earlier this year, between Surrey Waste Partnership (SWP) representatives and the leadership of each partner authority, to assess the extent to which partners wish to deliver services in a more joined up way going forwards.
- 1.3. The one-to-one meetings showed that appetites for joint service delivery varied quite significantly across the partners, ranging from delivering the majority of services locally to delivering services as part of a single county-wide body. Work streams have now been setup to establish new ways of working that cater for this wide range of appetites. The two key work streams are **finance** and **governance**.
- 1.4. This report focuses on the **finance** work stream, which is the more urgent of the two, because new financial arrangements are needed for 2018/19 and urgent clarity is needed for the budget setting process.
- 1.5. The finance work stream involves creating new mechanisms to transfer money from Surrey CC to the district and borough councils in a way that will provide a stronger financial incentive to save taxpayer money by encouraging waste reduction and increasing recycling. The current arrangements are outdated and no longer effectively encourage improvement, so the new arrangements will replace these.
- 1.6. Principles for a new financial mechanism have been developed by a task group of officers from seven different partner authorities in consultation with the wider SWP officer and Member groups, Surrey Treasurers' group and Surrey Chief Executives. These principles, and the process for agreeing them, are set out in this report.

2. Background: responsibilities for waste management

- 2.1. The Environmental Protection Act 1990 designates the district and borough councils as waste collection authorities (WCAs) and the county council as the waste disposal authority (WDA). The WDA is responsible for managing all waste collected by WCAs, but it can allow WCAs to retain management of collected recyclables, which is currently the case in Surrey for dry recycling (paper/card, glass, metal, plastic). Where this happens, the WDA is obliged to pay the WCA recycling credits (currently £59 per tonne) unless alternative arrangements are agreed.
- 2.2. Surrey CC has given all WCAs notice that it intends to take over management of dry recycling in January 2018. This enables Surrey CC to replace the current recycling credit based system with a new mechanism. It intends to base this new financial mechanism on the principles developed through the SWP officer task group.

3. Principles of the new mechanism

- 3.1. The SWP officer task group recommends that the new mechanism consists of two elements: a **fixed** element and a **variable** element.
- 3.2. **Fixed element**
 - 3.2.1. The purpose of the fixed element is to recognise the costs incurred by districts and boroughs from introducing and running recycling services.
 - 3.2.2. It will take the funding available from Surrey CC and split this out amongst the districts/boroughs based on the number of households within each district/borough area.
 - 3.2.3. It is proposed that in order for a WCA to receive a fixed payment, it must:
 - Not reduce the level of recycling collection services that it currently provides to residents.
 - Work positively towards achieving the aim, objectives and targets of the joint municipal waste management strategy¹.
 - 3.2.4. Surrey CC has given an indication of the level of funding that it is considering making available to the WCAs via the fixed element of the mechanism over the next three years. The figures in **Table 1** show what this would look like for each district/borough if allocated using the proposed 'household numbers' approach.
 - 3.2.5. For the purpose of comparison, **Table 1** shows how much each district/borough would receive via current financial mechanisms. This assumes that Surrey CC has taken ownership of the dry recycling and therefore pays the costs of managing this material.

¹ <https://www.surreywastepartnership.org.uk/our-strategy>

Table 1: Estimated payments from Surrey CC to WCAs based on allocating the available funding on a per household basis.

Authority	Current mechanisms	Fixed element of the new mechanism		
	2018/19	2018/19	2019/20	2020/21
Elmbridge	£711,687	£376,059	£258,822	£141,585
Epsom & Ewell	£315,900	£210,548	£144,910	£79,271
Guildford	£618,294	£378,104	£260,229	£142,355
Mole Valley	£466,030	£249,651	£171,822	£93,993
Reigate & Banstead	£617,107	£391,490	£269,442	£147,395
Runnymede	£263,756	£232,045	£159,705	£87,364
Spelthorne	£387,376	£276,819	£190,520	£104,221
Surrey Heath	£383,803	£234,881	£161,656	£88,432
Tandridge	£404,687	£235,936	£162,382	£88,829
Waverley	£476,017	£346,122	£238,218	£130,314
Woking	£563,025	£276,027	£189,975	£103,923
Total	£5,207,682	£3,207,682	£2,207,682	£1,207,682

3.2.6. Surrey CC has budgeted paying £40 per tonne to manage the dry recycling. If the actual market price turns out to be lower than this, Surrey CC has said it may be willing to share this saving with the districts and boroughs.

3.3. Transitional arrangements

3.3.1. Surrey CC has already taken over the management of dry recycling from Elmbridge, Spelthorne, Runnymede and Woking. The other seven districts/boroughs still have time left on their current contracts.

3.3.2. A number of these existing contracts include reprocessing fees that Surrey CC is unlikely to beat under the current market conditions. Therefore allowing these authorities to continue their contracts would deliver best value for the taxpayer.

3.3.3. If this happens, authorities that continue their contracts would need to continue paying the reprocessing fees. This would seem unfair considering that Surrey CC would otherwise be required to cover the reprocessing costs if it took over management of the material (as it has done in four boroughs already).

3.3.4. It is therefore proposed that Surrey CC makes payments to these authorities that recognise its avoided reprocessing costs as a result of this arrangement. The level of this payment is currently being considered.

3.4. Variable element of the mechanism

3.4.1. The purpose of the variable element is to incentivise authorities to take action to further reduce waste and increase recycling. It is proposed that:

- Starting in 2018/19, the actual savings, resulting directly from reducing waste and increasing recycling, will be shared.
- Savings will be calculated in each district/borough area by comparing the cost of waste management against an agreed baseline year.
- Savings will be split between the district/borough, Surrey CC and SWP using agreed percentages.
- The effect of increasing household numbers will be accounted for.

3.5. Funding Surrey Waste Partnership

3.5.1. The mechanism needs to ensure that sufficient funding is pooled for joint projects and initiatives. It is proposed that this is done through both fixed and variable elements of the mechanism.

3.5.2. For the fixed element, Surrey CC is intending to allocate funding (in addition to the figures shown in **Table 1**) to help fund SWP. However in order to give all partner authorities financial ownership of SWP, the Surrey CC funding could initially be allocated to each authority (to give a larger fixed payment) before being top sliced into the SWP account.

3.5.3. As mentioned in 3.4.1, it is also proposed that a proportion of the variable payment goes to SWP in order to financially incentivise it to reduce waste and increase recycling.

4. Next steps

- 4.1. In early October Surrey CC will create an initial proposal for a new financial mechanism based on the principles above and any further comments from Leaders.
- 4.2. Following consultation at officer level, SCC will develop a revised proposal by the end of October. This will be discussed at SWP Members' group on 1 November, Surrey Chief Executives' group on 3 November and Surrey Leaders' group on 22 November.
- 4.3. SCC cabinet decision on 28 November.
- 4.4. New arrangements go live on 1 April 2018.