

SURREY COUNTY COUNCIL**CABINET****DATE: 28 NOVEMBER 2017****REPORT OF: MR MIKE GOODMAN, CABINET MEMBER FOR ENVIRONMENT AND TRANSPORT****LEAD OFFICER: TREVOR PUGH, STRATEGIC DIRECTOR ENVIRONMENT AND INFRASTRUCTURE****SUBJECT: CHANGES TO PAYMENTS TO DISTRICT AND BOROUGH COUNCILS FOR THE RECYCLED WASTE THEY COLLECT****SUMMARY OF ISSUE:**

This report covers changes to the mechanisms for waste-related financial transfers from Surrey County Council (SCC) to Surrey district and borough councils, and changes to the levels of funding over the next three years. There are no proposed changes to the kerbside waste collection services provided to Surrey residents arising from these plans.

Over the last few years, Surrey authorities have made significant progress in improving the delivery and performance of waste collection and disposal services. Surrey is now one of the best performers for waste management in the country, and all authorities in Surrey are continuing to explore options for how further improvements can be made through joint working.

Part of this is replacing the arrangement whereby each district and borough is individually responsible for procuring the disposal of its kerbside collected recyclable material with a new arrangement that benefits from economies of scale and can deal with market volatility better.

In parallel to this, the current system of financial transfers for recycling from SCC to district and borough councils has become complex and unaffordable and no longer provides the incentive for better performance that it used to. For this reason it is proposed that a new system of financial transfers to district and borough councils for recycled waste is introduced from 2018/19 onwards.

The new system, which would replace all existing waste payments, aims to allocate funding on a fair and equitable basis, whilst encouraging waste reduction, increasing recycling and reducing the cost of waste management to the taxpayer. Proposals for the new mechanism have been developed in close consultation with district and borough councils, and the Surrey Waste Partnership, and SCC is grateful to our partners who have been involved in this work.

The new financial arrangements should be viewed as an interim solution, which will be reviewed as the plans for delivering greater joint working progress towards a single co-owned waste management approach, as previously considered by Cabinet in May 2016 and December 2016. A step towards this approach has already been made by four Surrey waste collection authorities who have created a new organisation called Joint Waste Solutions to manage their waste services.

Some SCC waste disposal authority functions have also recently been transferred to Joint Waste Solutions.

There is significant scope for making further savings for the Surrey taxpayer by improving performance and changing the way in which waste is managed in Surrey. SCC remains committed to working with district and borough councils, via the Surrey Waste Partnership, to develop these new ways of working.

RECOMMENDATIONS:

It is recommended that:

Cabinet approves the proposals for changed financial arrangements for recycled waste with district and borough councils for 2018/19 to 2020/21, as outlined in this report.

REASONS FOR RECOMMENDATION:

The current system of financial transfers from SCC to district and borough councils has become unaffordable and no longer provides an incentive for further performance improvement.

The principles of the new mechanism have been developed in consultation with district and borough councils. They have been designed to give a reasonable degree of budgetary certainty whilst incentivising waste reduction and improved recycling performance.

The new financial mechanisms are projected to deliver a saving of £2 million for SCC in 2018/19, with a further £2 million split across the following two years.

DETAILS:

Responsibilities for waste management

1. 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.
2. 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

3. Surrey County Council and all 11 borough and district councils collaborate via the Surrey Waste Partnership (SWP) which helps the authorities to work towards delivering a joint strategy. The SWP pools money centrally and manages a wide range of joint initiatives which include improving recycling at flats, communications and behaviour change initiatives, and a schools

engagement programme. The partnership also helps authorities to identify new ways of working to improve performance and services.

4. 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.
5. 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 (as shown in the graph below).

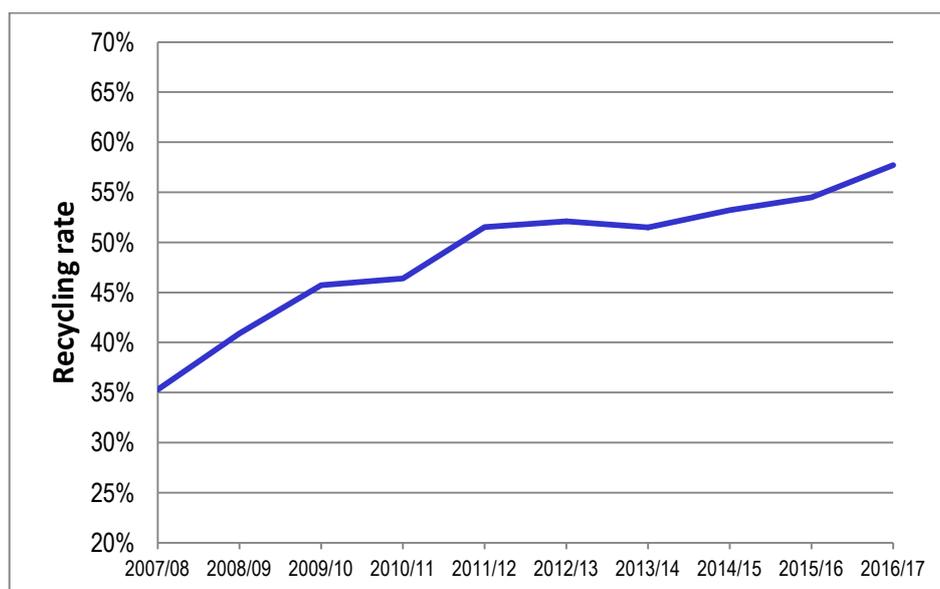


Figure 1: Surrey's overall recycling rate 2007/8 to 2016/17

6. 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 have also been transferred to Joint Waste Solutions.

Current financial arrangements and the need for change

7. The way in which waste is managed in Surrey has resulted in a complicated set of statutory and non-statutory financial transfers 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.
8. In 2016/17, SCC transferred around £10.3 million of waste related funding to district and borough councils and the SWP. The majority of payments were 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.

9. Although the total amount of waste dealt with has risen due to population increases, 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.
10. 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.
11. Financial pressures mean that SCC needs to make savings from all of its budgets. With regard to waste management, a number of initiatives aimed at improving performance and reducing costs are currently underway. These include changes at CRCs (as agreed by Cabinet in September 2017) and working with district and borough councils to deliver efficiencies and improve recycling performance at the kerbside. Therefore the changes to financial arrangements discussed in this report form one aspect of this wider work programme.
12. Following extensive discussions between authorities last year, district and borough councils agreed to a one-off contribution towards SCC's waste savings in 2017/18 totalling around £1 million. A reduction in SCC's funding for the SWP was also agreed as part of these discussions. It is now intended that a greater permanent change to financial transfers will be made in 2018/19.

New financial mechanism

13. Following a Cabinet decision in December 2016, SCC wrote to all district and borough councils explaining 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. This does not mean SCC will take over the management of kerbside collections, but involves asking WCAs to deliver their recyclable material to SCC to find a suitable recycling outlet, rather than WCAs making their own individual arrangements.
14. Managing kerbside collected materials centrally in this way will enable Surrey authorities to engage with the market more effectively whilst developing a longer term management strategy. Taking ownership of recyclable material also removes the statutory requirement to pay recycling credits, enabling the development of new financial mechanisms.
15. 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.
16. The new mechanism, which would replace all existing waste payments, aims to allocate funding on a fair and equitable basis, whilst encouraging waste reduction and increasing recycling.
17. In spring this year, a task group of SWP and SCC representatives visited each district and borough to discuss their thoughts on joint working, and to discuss the need for new financial mechanisms. Following that, extensive

consultation through the Surrey Waste Partnership has taken place and a proposal for a new mechanism has been developed. The key elements of this mechanism are as follows:

- A **fixed payment**, allocated based on the number of households in an authority.
- A **variable payment** designed to incentivise performance improvement by sharing any future disposal savings.
- Sustainable **funding for the Surrey Waste Partnership**.
- A **share of gate fee savings** (for those authorities where SCC now manages the dry mixed recyclable material).
- **Transitional arrangements** (for those authorities whose contracts go beyond early 2018).

These elements are explained in more detail below.

Fixed payment

18. The purpose of the fixed payment is to recognise the costs incurred by district and borough councils from introducing and running recycling services. It is also intended to give authorities some certainty around the minimum level of funding they will receive from SCC over the next three years. The available funding from SCC is split out amongst WCAs based on the number of households within each authority area.
19. Following feedback from authorities, the reduction in payments has been phased in over three years in order to reduce the impact as much as possible. Funding levels for the fixed payment (made by SCC to WCAs) will be £3.2 million in 2018/19, £2.2 million in 2019/20 and £1.2 million in 2020/21.
20. It is important to note that the fixed payment has been calculated based on the assumption that SCC will take over the management of all recyclable material, which would mean a significant transfer of costs (estimated £4 to £5 million) from district and borough councils to SCC.
21. It is proposed that in order for a WCA to receive a fixed payment, it must:
 - Maintain a certain level of service for all households where feasible. This would include collecting core dry recyclables (paper, card, metals, plastics and glass), and providing weekly food waste collections.
 - Continue to work positively towards achieving the aims, objectives and targets of the joint municipal waste management strategy.
22. It is proposed that the SWP would be the body that decides if a WCA is not acting in the spirit of the agreement.

Variable payment (share of future savings)

23. This is a mechanism for sharing savings that arise from future improvements, and is designed to reward increases in recycling and reductions in residual waste. The mechanism is designed to better reflect real savings as, unlike recycling credits, it also recognises the savings that arise from waste

reduction. The principle of this mechanism is that the saving should be calculated based on changes in the actual cost of dealing with all waste streams, compared to a baseline year (2017/18).

24. It is proposed that the variable payment is split 40:40:20 between SCC, WCAs and the SWP, which means that all partners will benefit from any cost savings that arise as a result of performance improvement in the future.

Funding the Surrey Waste Partnership

25. SCC is intending to continue to fund the SWP at a level based on its current annual expenditure. The proposal of the task group is to fund this from the fixed payment in a similar manner to the current recycling credit 'top slice'.

Share of gate fee savings

26. SCC has already taken over the management of dry recycling from four authorities because their dry recycling contracts have recently expired. As a result, SCC has taken over paying the management costs for the material collected by these authorities. SCC is also planning to take over the management of Surrey Heath's material early in the New Year. This means that in 2018/19 the following authorities will have their material managed by SCC:
- Elmbridge
 - Runnymede
 - Spelthorne
 - Surrey Heath
 - Woking
27. The fixed payments have been calculated in order to deliver SCC a particular level of saving and are based on an assumed gate fee of £40 per tonne for recyclable material. However, the actual cost may be higher or lower than this. It is proposed that SCC will share any cost saving 50:50 with WCAs where the gate fee is lower than £40 per tonne. SCC will take the risk if gate fees rise above £40 per tonne. This payment would be applied on a borough by borough basis, though there is potential to review this approach as materials contracts change, or if SCC develops its own recycling facilities.

Transitional arrangements (for those authorities whose contracts go beyond early 2018)

28. For the remaining WCAs, SCC is keen to ensure that the cost to the Surrey taxpayer of managing materials is minimised as far as possible. 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 agreement on financial transfer arrangements for 2018/19 onwards.
29. In such instances where a WCA may continue with their current dry recycling contract, transitional arrangements will be needed in order to ensure that all authorities are treated fairly and equitably. This will be in the form of a

payment from SCC to recognise the WCA's ongoing exposure to material management costs. SCC's proposal is that this is set at £37.50 per tonne.

30. Transitional payments would only continue until the current contract ends, or if an extension to the contract continues to represent best value for the Surrey taxpayer.
31. Transitional arrangements would apply to:
- Epsom and Ewell
 - Guildford
 - Mole Valley
 - Reigate and Banstead
 - Tandridge
 - Waverley

These arrangements are subject to final agreement with the individual authorities.

Funding levels in 2018/19

32. Table 1 below shows the projected payments to WCAs and the SWP in 2018/19, and the total cost to SCC. It is important to note that, aside from the fixed payment, all payments are subject to change as they are based on a number of assumptions around tonnages and costs. The table does not show any potential variable payments as this would be dependent on future savings from performance improvements.

Funding type	2018/19
Fixed payment (net)	£3,207,682
Recycling credits - textiles & bring banks only*	£172,595
Transitional payment where WCA continues to manage their kerbside collected recyclables*	£2,276,579
Payment for gate fee savings where SCC manages kerbside collected recyclables*	£173,915
Net sum received by WCAs	£5,830,770
WCA contribution to SWP (fixed payment 'top slice')	£632,500
SCC contribution to SWP	£57,500
Total SWP funding	£690,000
Total cost to SCC	£6,520,770

Table 1: Estimated payments to WCAs in 2018/19. Payments marked with a * are based on estimated tonnages and costs and are subject to change.

Form of agreement

33. As discussed above, the fixed payment will be conditional on a number of factors including the WCA agreeing to not reduce its service, and to continue to work towards the aims of the joint strategy.
34. SCC is also very aware of the need for authorities to have some certainty over what they will be paid going forward. For this reason a Memorandum of

Understanding between each authority and SCC is being drafted, which sets out the intended levels of funding over the next three years, how the financial mechanisms will work, and any borough-specific transitional arrangements.

Opportunities for further cost savings

35. There is significant scope for making further savings for the Surrey taxpayer by improving performance and changing the way in which waste is managed in Surrey. These opportunities include:
 - Running waste services and back-office functions as efficiently as possible.
 - Greater consistency of service across Surrey, which would also improve the service for residents.
 - Capturing more waste for recycling, which would reduce the need for costly residual waste disposal.
 - Increasing income, for example by expanding commercial waste services.
 - Maximising the value of recyclable material through joint contracts and finding the most cost-effective outlets.
36. Work by the Surrey Waste Partnership has identified that annual savings of between £9 and £12 million could be achieved through greater joint working. The savings achieved by the four authorities who have entered into a joint waste collection contract provide early evidence of the benefits of this approach.
37. The SWP is working on proposals for new arrangements for a single partnership approach for managing waste in Surrey which, as a first step, would integrate the governance of Joint Waste Solutions and the wider Surrey Waste Partnership.
38. SCC continues to be committed to the delivery of new ways of working in waste and views the proposed financial arrangements described in this report as an interim solution, which will be reviewed in the light of any changes to the way in which waste management services are delivered in the future.

CONSULTATION:

39. For a number of years, Surrey authorities have been discussing options for delivering more efficient and effective waste services through joint working. In spring this year, a task group of SWP and SCC representatives visited each district and borough to discuss their thoughts on joint working, and to discuss the need for new financial mechanisms. Following on from this, SCC has consulted widely with regard to the specific proposals for 2018/19 onwards.
40. A SWP task group, made up of officers from seven partner authorities was set up to help shape the principles behind the new financial arrangements. The task group met five times between April and October 2017. SCC has taken their recommendations into account when developing the proposal.
41. Discussions have also taken place at the following meetings in 2017:
 - SWP Officers' and Members' meetings

- Various Surrey Treasurers' (Chief Finance Officer) meetings
- Surrey Chief Executives' group meetings in July, September and November
- Surrey Leaders' group meetings in September and November
- Various Joint Waste Solutions Partnering Board meetings
- Meetings with several individual authorities
- SCC's Environment and Infrastructure Select Committee on 5 October

RISK MANAGEMENT AND IMPLICATIONS:

	Risk	Mitigation
42.	WCAs do not agree to new arrangements.	Proposals have been developed in consultation with all authorities and SCC will continue to engage with authorities as specific agreements are drawn up. Consider alternative options to deliver savings if required.
43.	Changes in materials markets mean that cost of managing material is greater than forecast.	Allow WCAs to continue contracts with advantageous prices where possible. Work with Suez to find the most appropriate outlets for the material.
44.	New financial arrangements result in unforeseen negative impacts on recycling services or performance levels.	The agreement between SCC and WCAs will be designed to ensure that WCAs do not reduce their level of service and continue to work towards the aims of the joint strategy. The variable mechanism has been designed to incentivise future performance improvements. The SWP will continue to be funded at current levels which means that its comprehensive and well established improvement programme will remain in place. SCC will closely monitor performance and will review arrangements if they do not deliver the expected outcomes.

Financial and Value for Money Implications

45. The proposals outlined in this report are designed to deliver a £2 million saving for SCC in 2018/19, compared to what it would have cost if statutory recycling credit payments had remained in place and all other payment mechanisms stayed the same. This effectively continues the £1 million annual reduction from 2017/18, and adds a further £1 million for 2018/19.
46. Table 2 below shows the estimated saving for SCC in 2018/19. The costs of the current proposal, as outlined in this report, are compared to a do nothing

scenario where SCC would carry on paying recycling credits at the full statutory rate. Aside from the fixed payment and SWP funding, all expenditure is based on estimates of tonnages and management costs.

Funding/expenditure type	2018/19 do nothing scenario	2018/19 current proposal
Fixed payment (net)		£3,207,682
Recycling credits - DMR	£5,256,466	
Recycling credits - garden waste	£1,629,045	
Food waste payment	£711,770	
Recycling credits - textiles & bring banks only	£172,595	£172,595
Transitional payment where WCA continues to manage their kerbside collected recyclables		£2,276,579
Payment for gate fee savings where SCC manages kerbside collected recyclables		£173,915
Net sum received by WCAs	£7,769,876	£5,830,770
SWP funding	£690,000	£690,000
Cost to SCC of managing recyclables that it has taken over ownership of from WCAs	£1,905,388	£1,905,388
Total cost to SCC	£10,365,264	£8,426,159
Saving from baseline		-£1,939,105

Table 2: Savings estimate for SCC 2018/19.

47. The fixed payment will reduce by a further £2 million over the following two years (2019/20 and 2020/21). The fact that a large proportion of the funding is fixed allows for a reasonable degree of budgetary certainty for SCC and district and borough councils. The remainder of the funding projections discussed in this report are based on estimates of tonnages of material and likely management costs.
48. Taking ownership of district and borough recyclable material removes the statutory requirement to pay recycling credits but it does mean a transfer of risk to SCC with regard to materials management costs. Once SCC manages all the recyclable material (approximately 120,000 tonnes), any increase in gate fees would have a significant impact.
49. Allowing district and borough councils to continue with any contracts that may incur breakage fees, or that currently offer favourable prices, ensures that we are reducing costs to the Surrey taxpayer as far as possible.
50. Managing the recyclable material centrally (after it has been collected by WCAs) will enable Surrey authorities to engage with the market more effectively whilst developing a longer term management strategy, which may include building our own facilities to sort and process recyclable materials, which would be expected to deliver further savings.

Section 151 Officer Commentary

51. The County Council is facing a very serious financial situation, whereby there are still substantial actions to be identified and delivered to achieve a balanced budget in the current year and a sustainable budget plan for future years. This reports sets out how changes to financial arrangements with district and borough councils can reduce costs and incentivise further recycling improvements.
52. The Council's Medium Term Financial Plan (MTFP) includes a saving of £2m in 2018/19 through changes to financial arrangements with district and borough councils. Although the proposed arrangements set out in this report deliver a saving of £2m, these savings partially replace £1m of one off savings agreed for 2017/18. The net effect is therefore a saving of £1m in 2018/19, falling short of the MTFP planned saving. This shortfall is recovered in subsequent years. Further consideration needs to be given to longer term arrangements, including once transitional arrangements (for those district and borough councils who will continue with their current recycling contracts) come to an end.
53. The report also highlights a number of areas of uncertainty. The proposed financial arrangements assume that where SCC takes on the management of dry recycling it will pay a gate fee of £40 per tonne to recycle that material. Where actual costs are lower the benefit will be shared with district and borough councils, however SCC bears the risk of cost increases, e.g. due to changes in the market value of materials. Calculations also assume that waste volumes and composition will remain unchanged. The exact level of saving may therefore change.
54. Notwithstanding the above, the proposed arrangements will deliver a cost reduction to SCC and will continue to incentivise recycling performance improvements, thereby increasing value for money to residents.

Legal Implications – Monitoring Officer

55. The responsibilities of the County as waste disposal authority and the districts and boroughs as waste collection authorities are set out in paragraphs 1 and 2 above. The proposal that reasonable changes are made, with the agreement of the districts and boroughs, to the financial arrangements for recycled waste is within the Council's statutory powers. The proposal includes a condition that there will be no reduction in service to residents, and appropriate transitional arrangements for those authorities with existing contractual commitments that will not come to an end by January 2018. Legal Services will draft and agree a memorandum of understanding with the districts and boroughs which will set out how the financial mechanisms will work over the next three years.

Equalities and Diversity

56. The new waste financial arrangements for district and borough councils do not involve making any changes to the waste services that SCC or the district and borough councils provide to residents. There are also no proposed changes for staff as a result of these plans. Therefore, at this time, there are no equalities and diversity implications arising from these proposals.

Environmental sustainability implications

57. Increased efficiency and better performance arising from working together to deliver waste services more effectively is likely to have a beneficial impact, for example:
- Reducing waste arisings and recycling material rather than disposing of it reduces the carbon impact of producing new materials and the associated emissions from packaging, transportation and disposal.
 - Joint working and rationalising services will improve collections routes and disposal efficiency, reduce the number of vehicles required and the associated emissions from haulage.
58. The new financial mechanisms are designed to incentivise better recycling performance and reductions in residual waste, and to help ensure all authorities continue to work together towards the aims of the joint strategy.

WHAT HAPPENS NEXT:

59. Memoranda of Understanding to be developed in consultation with individual WCAs and SWP.
60. New financial mechanisms will be put in place from 1 April 2018.

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Consulted: See consultation section above

Annexes: None

Sources/background papers:

- Cabinet Reports: 12 May 2016, 13 December 2016, 26 September 2017
 - Joint Municipal Waste Management Strategy, Revision 2 (2015)
-