



HERTFORDSHIRE WASTE PARTNERSHIP

MEMBERS' GROUP 26th April 2010

Item 5a: Alternative Financial Model – Covering Report

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1. Purpose of the Report

- 1.1. To recommend changes to the Alternative Financial Model, (AFM).
- 1.2. The changes discussed in this report are the culmination of extensive discussions and work on the model by both the Directors' group and Heads of Waste with the support from an external consultant.
- 1.3. This report should be read in conjunction with the external consultants report on the AFM circulated as Item 5b and considered together with a presentation to be made at the Member meeting on the 26th April 2010.

2. Background

- 2.1. The AFM sees the County Council reward the districts for reductions in residual waste. Rewards are cumulative to encourage continuous improvement in performance.
- 2.2. Recently concerns have been expressed with respect to the way the model rewards comparative levels of performance. As a consequence it was agreed to review the model with assistance of external consultancy which would :-
 - a) Assess the current and likely future legislative context for the operation of the AFM.
 - b) Consider the impact of possible changes in statutory recycling targets for individual authorities; changes to recycling targets on a national basis; or revised targets agreed locally.
 - c) Consider how any LATS savings from trade waste recycling could be incorporated into a revised model.
 - d) Generate options which looked at different ways to target increased performance taking into account current achievements and targets in Hertfordshire's Joint Municipal Waste Management Strategy.

- e) Address a desire to target lower performance whilst recognising higher achieving authorities.
- f) Comment on and make recommendations with respect to the formulation of a legal agreement to govern the management of any new model.
- g) Consider what transitional arrangements may be needed in moving from the current model to any new arrangements agreed following the review.

3. External Consultants Report

- 3.1. The final report from the external consultant was published in January this year and has been circulated as Item 5b. The report provides a comprehensive independent assessment of the model.
- 3.2. In section 5.1 on pages 20 - 21 the report highlights the main issue for the review by demonstrating the potential size of the imbalance in rewards (expressed as a subsidy per household) from the AFM over the next few years if the model is left unaltered. There is a possibility that these imbalances could cause a number of authorities to initiate a formal review under the terms of the Intermediate Inter Authority Agreement if not addressed.
- 3.3. The report also underlines the strength of the current model which is clearly supported by a general desire on the part of the constituent authorities to see the essence of the AFM retained whilst accepting that changes are needed to address the imbalances now apparent.
- 3.4. The recommended changes detailed in the consultants report along with the results of further deliberations by the Directors' group and Heads of Waste are summarised below.

4. Capping

- 4.1. To re-balance the model the central recommendation in the report is to cap the level of subsidy per household with any excess redistributed to other districts based on agreed criteria as discussed in section 5.3 pages 22 - 24 of the consultants report.
- 4.2. The report suggests that the cap is based on data contained in WRAP's report of June 2008 entitled ***Kerbside Recycling – Indicative Costs and Performance*** which profiled various household waste collection models. Based on the type of collection configuration most commonly used to achieve recycling rates in the region of 50% the report calculated that the additional cost per household of providing the relevant services at the time of writing was £6.85.
- 4.3. However, following extensive consultation both the HoWG and Directors' group agreed that the cap needed to take into account indexation since the WRAP report was published. Remembering that changes to the AFM will not be implemented until 2011/12, the starting cap would be £7.49 per household (based on indexing £6.85 in 2008/09 by 3% per annum).

5. Redistribution

- 5.1. With the cap in place it is proposed that income generated over the cap is redistributed back to those constituent authorities below the cap who have achieved a minimum recycling rate of 40%.
- 5.2. This mechanism will be demonstrated at the meeting.

6. Top Slicing the AFM

- 6.1. One issue that became apparent during the external review was the difference between residual waste reductions anticipated by the districts during 2009/10 (2319 tonnes – table 6 Page 25) and those actually achieved (12,281 – WMU Spreadsheet – Best Value Tonnages 2009/10 – 8th April 2010).
- 6.2. This means that the model during 2009/10 has generated significant additional funds for the districts not anticipated at the time of the review. Partly as a consequence of this as well as a general desire to increase the HWP's ability to fund additional work without impacting on existing budgets the HoWG agreed to top slice funds generated by the AFM by 1%. Based on anticipated tonnages during 2011/12 this is likely to generate additional funding of £30,000 for use by the HWP.
- 6.3. Generating funding in this way means that the top slice would not represent any additional costs to the constituent authorities. The top slice is also independent of the annual subscription which would continue to be invoiced for at the start of each financial year.

7. Basing the AFM on Household Numbers

- 7.1. One recommendation stemming from the consultants report was to adapt the model to use household numbers instead of population. Having reached a majority agreement on the changes outlined above the HoWG at their meeting on the 8th April 2010 considered the implications of using household numbers in 2011/12.
- 7.2. Using numbers taken from supporting papers to the consultants report it is anticipated that changes to levels of reward when swapping to households in 2011/12 are relatively minor compared to overall reward levels as demonstrated in the table overleaf :-

ALTERNATIVE FINANCIAL MODEL impact of swapping to households in 2011/12				
DISTRICT	2009/10	2010/11	2011/12	2012/13
Broxbourne	£0	£0	£0	£0
Dacorum	£0	£0	+£5,622	£0
East Herts	£0	£0	£0	£0
Hertsmere	£0	£0	+£3,795	£0
North Herts	£0	£0	£0	£0
St. Albans	£0	£0	£0	£0
Stevenage	£0	£0	£0	£0
Three Rivers	£0	£0	+£3,342	£0
Watford	£0	£0	+£3,340	£0
Welwyn Hatfield	£0	£0	+£4,280	£0

7.3. This change is assisted by the fact that the vast majority of the districts are now achieving residual waste levels which exceed (are better than) the targets detailed in the AFM with out turns in 2010/11 onwards setting the targets for the following year.

7.4. However, it should be noted that the analysis is based on projected population and household numbers up to and including 2012/13. This underlines the need for districts to continuously keep their own models updated with the latest information available in order to identify any significant departure from the numbers being used to project the model going forward.

8. Alternative Financial Model – Disposal Costs

8.1. The current model uses a disposal cost based on the recycling credit value indexed at 3% per annum plus a landfill tax contribution that is fixed at £22 per tonne. However, the landfill tax is set to rise to £80 per tonne by 2014/15. Following consideration of the issue by the Directors' group and Heads of Waste it was agreed that the landfill tax element would also be indexed at 3% per annum from 2011/12 onwards in line with the statutory index applied to the recycling credit element. This change is reflected in the model that will be demonstrated at the meeting.

9. Summary of Proposed Changes to the AFM

9.1. The changes being recommended to the AFM are as follows :-

- No changes to the model during 2010/11.
- Initiating the capping mechanism at £7.49 per household in 2011/12.

- Indexing both the cap and landfill tax element of the disposal cost at 3% per annum from 2011/12 onwards.
- Converting the model to household numbers in 2011/12.
- Eligibility for receiving redistributed funds is based on achieving a minimum household recycling rate of 40%.
- From 2011/12 top slicing the AFM by 1% to fund additional HWP activity.

9.2. In addition to the above please note :-

- Forecast reductions in residual waste have been approved by the Heads of Waste group.
- Forecasts are based on projected population and household numbers extracted from supporting papers to the external consultants report.

10. Conclusion

9.3. At first glance the changes outlined in the report appear complex. However, they do not fundamentally alter the operation of the AFM and are designed to address the significant imbalances appearing in the current model with vastly different levels of reward for comparative performance as outlined in the consultants report.

9.4. In addition the revised model still underpins the principle that the County Council looks to assist in financially supporting efforts to increase district recycling levels from 30% – 50%.

10. Recommendations

10.1. That Members approve the recommended changes to the Alternative Financial Model.

10.2. That, subject to approval, Members note that the changes will be implemented from 2011/12 onwards.

10.3. That a further review is undertaken during the course of 2012/13.