

**Report to Cabinet**

**28<sup>th</sup> January 2016**

By the Cabinet Member for Waste, Recycling and  
Cleansing

**DECISION REQUIRED**



**Horsham  
District  
Council**

**Recycling Payments Mechanism - Memorandum of Understanding (Schedule 6)**

**Executive Summary**

Horsham District Council formally entered into the West Sussex Waste Partnership Memorandum of Understanding (MOU) agreement in 2004. This MOU incorporated a mechanism to cover recycling payments made by West Sussex County Council (WSSCC) to each Collection Authority based on tonnages of material collected and delivered to the WSSCC transfer stations. The mechanism agreed in 2004 favoured Horsham District Council at the time due to its high recycling rates and provided in 2015/16 a payment of £1.044m.

In light of changes to waste collections and recycling markets over the last ten years, a new MOU has been developed by District/Borough Councils and West Sussex County Council which is geared towards the collection of 'quality' recycling materials that have a significant commodity value, as opposed to the number of properties within each district. The revised Recycling Payment Mechanism (RPM) also financially incentivises Collection Authorities to encourage more recycling in an attempt to achieve EU recycling targets of 50% by 2020. Horsham District Councils current recycling rate is just under 45%.

**Recommendations**

That Cabinet is recommended to:

- i) Approve the 2016 West Sussex Waste Partnership MOU Recycling Payment Mechanism as detailed in Section 7.1.

**Reasons for Recommendations**

- i) The MOU and associated repayment mechanism should be adopted to in order to drive recycling performance and receive an equitable payment for recycling materials collected.

**Background Papers**

Risk assessment – West Sussex Waste Partnership Repayments mechanism (available on request)

**Wards affected -All**

**Contact:** John McArthur; Streetscene & Fleet Manager (interim Waste & Recycling Manager)

### Background Information

#### 1 Introduction and Background

- 1.1 The West Sussex Waste Partnership is delivered by two groups- the Strategic Waste Officers Group (SWOG), comprised of District/Borough/ WSCC council officers and the Inter-Authority Waste Group (IAWG) comprised of District Cabinet members and senior officers. The Partnership is committed to:
- Reducing the amount of waste produced;
  - Reducing the quantity of waste disposed at landfill sites;
  - Increase recycling rates (linked to EU and national legislation targets);
  - Improving waste collection and disposal infrastructure
  - Enhancing service delivery to our customers.
- 1.2 The EU Waste Framework Directive requires a 50% household waste recycling target to be achieved by 2020. The Partnership has revised the existing Memorandum of Understanding (MOU) adopted in 2004 with a new MOU model which includes the recycling payments mechanism (Schedule 6). This new mechanism incentivises each collection authority via the use of Base Payments plus Reward Payments for dry recycling, which is attributed to income received by WSCC for diverting waste being land filled. The MOU agreement is a formal undertaking as part of the waste partnership; however it is not a legally binding agreement.
- 1.3 In 2004 the West Sussex Waste Partnership formally agreed a Memorandum of Understanding after its inception in 1998. The original agreement relied heavily on a high residual return for each recycling material which at the time commanded a good return based on commodity prices. At the time recycling markets were at a high with trends forecast to continue. However, over the last five years the reverse occurred which has left a funding gap in the recycling payment business model. This has resulted in the model becoming unsustainable for West Sussex County Council and has left some authorities with a shortfall in expected returns against recycling payments.
- 1.4 The new model which has been devised by officers on SWOG agreed that a new mechanism was required which would address any historical disparity and focus more on recycling performance and the quality of the recycle as one of the key outcomes. The revised payment mechanism was presented and agreed in principle by the IAWG in December 2015. It was accepted that it would be necessary for each individual District/Borough Council to agree the payment mechanism formally through Executive arrangements. In addition the payment mechanism was considered by the West Sussex Finance Officer Group (WSFOG) to ensure that the mechanism was sound and would provide a stable platform for future recycling payments based on performance.
- 1.5 In order to reflect any fluctuations in market forces or changes within each respective authority an annual review has been built into the MOU (Schedule 6), which allows modifications to the payment mechanism or any other part of the agreement as a whole. It is with this in mind that the agreement as a whole will benefit each authority in the long run and will achieve equitable payments as well as encourage a collaborative approach to tackling landfill diversion.

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- 1.6 The new recycling payment mechanism will be updated on an annual basis to reflect accurately the household numbers per District. This will result in a more accurate reward payment for each of the districts due to an increase in the number of houses being built. The new agreement will also contain a penalty clause which is triggered should recycling quality (contamination) be above a 6% quality threshold. A payment will be deducted from each authority's payment allocation if this is the case. This will be held by WSCC with each authority being able to apply to claim back any penalty as long as it can demonstrate that funds will be re-invested into recycling performance improvement.
- 1.7 Collection Authorities will continue to benefit through ring-fenced funding from the agreement. Approximately £100k per annum will be ring-fenced to raise awareness, improve communication programmes and undertake any mandatory assessments such as TEEP (technical, environmental economical practical) to increase and improve recycling. This in turn will help drive education and awareness which will improve recycling uptake and the quality of materials collected.
- 1.8 WSCC will continue to pay a 'tipping away' payment to the Council until they provide a Transfer Station within the Horsham District. This is a charge which some extent compensates the extra costs we incur to take our waste to the Burgess Hill Transfer Station.

## **2 Relevant Council policy**

- 2.1 District Plan 2011-2015 Efficiency and Taxation; Environment

## **3 Details**

- 3.1 The proposal is to formally adopt the revised MOU (Schedule 6) in order to drive recycling participation and the quality of recycling collected for each property. This will be reflected in the payment received from West Sussex County Council via base support payments and the rewards payment incentive.
- 3.2 Recycling allocation payments will be received quarterly in advance along with any rewards payments.
- 3.3 The total payment allocation received by each authority will include the Base support payment plus the Bonus support payment. The 2016/17 payments will focus on household numbers and performance in the ratio of 90% on household numbers and 10% on performance; however this will be geared towards a 50/50% split by 2020 thus driving recycling performance further.
- 3.4 The revised agreement delivers an equitable payments programme across all Districts and Borough Councils, which is geared towards a performance based system. This allows review on an annual basis to account for fluctuation in commodity value and other associated trends within each authority area such as new housing stock. This will therefore avoid the fluctuation in payments received by each Council and ensure fairness across the County.
- 3.5 There will be a penalty scheme implemented if recycling materials delivered to Transfer sites are of poor quality/contaminated. Payments will be deducted from each Councils allocated payment, however this will be held by WSCC and released to each authority on application of a performance improvement measure being submitted.

3.6 There will also be a reward payment made to Collection Authorities if overall materials rejection is below a threshold of 6%.

### 4 Next Steps

4.1 To finalise all remaining schedules associated with the MOU as a whole.

### 5 Outcome of Consultations

5.1 Consultation has taken place at the Inter-Authority Waste Group (IAWG), Strategic Waste Officers Group, West Sussex County Council and the West Sussex Finance Officers Group.

5.2 The comments of the Director of Corporate Resources, the Head of Legal and Democratic Services and the Director of Community Services have been incorporated into this report.

### 6 Other Courses of Action Considered but Rejected

6.1 Several alternative models were developed and reviewed by SWOG to ensure the most equitable mechanism was arrived at ensuring performance going forward to 2020.

### 7 Financial Consequences

7.1 There is a significant financial consequence for the Council given that the original agreement favoured Horsham Council. The differential in funding from 2015/16 to 2016/17 will be a revenue reduction of £233k, from £1,044m to £811k. However with the base support allocation plus the incentive package to encourage greater recycling and reduce contamination, there is the opportunity to enhance the recycling payments as detailed in Appendix 2 over the next five years. Table 1 details the projected revenue impact over the next five years.

**Table 1**

|                | <b>Recycling Payment</b> |
|----------------|--------------------------|
| <b>2015/16</b> | £1,044, 538              |
| <b>2016/17</b> | £811,385                 |
| <b>2017/18</b> | £851,263                 |
| <b>2018/19</b> | £893,423                 |
| <b>2019/20</b> | £937,511                 |
| <b>2020/21</b> | £983,609                 |

7.2 It should be noted that for a number of years the previous MOU payment mechanism had favoured Horsham District Council and this can be seen in Table 2 below which illustrates the recycling payment this Council received compared to other West Sussex authorities. A more detailed version of the model can be found in Appendix 2.

Table 2

| Local Authority      | Dwelling stock | 2015/16 allocation (historical basis) £ | 2016/17 revised MOU allocation £ |
|----------------------|----------------|---|----------------------------------|
| Adur DC & Worthing B | 77,157         | 1,036,188                               | 1,022,110                        |
| Arun DC              | 72,767         | 902,580                                 | 970,902                          |
| Chichester DC        | 56,000         | 694,984                                 | 780,093                          |
| Crawley BC           | 43,506         | 547,764                                 | 601,556                          |
| Mid Sussex           | 61,130         | 746,884                                 | 841,979                          |
| Horsham              | 59,009         | 1,044,538                               | 811,385                          |

Reference to Appendix 2

7.3 **Base Payment** - The Base Payment payable to the Districts and Boroughs from WSCC represents the net saving to the WSCC as the Disposal Authority, for the diversion of the residual municipal waste from landfill which is recycled or reused. This calculation shall be reviewed and updated on an annual basis and reported to the SWOG.

7.4 **Recycling Income Payment** - The Recycling Income Payment payable to Districts and Boroughs from WSCC represents the quantities and financial values of the dry recyclable waste stream delivered to and processed at the Ford (and other) Material Recycling Facilities operated under the control of WSCC. This calculation shall be reviewed and updated on an annual basis and reported to SWOG.

7.5 **Funding Allocation** - Base Payments and Recycling income shall be allocated between each of the Boroughs and Districts. This calculation and its methodology shall be reviewed and updated on an annual basis and reported to the SWOG.

7.6 **Contingency Funds, Incentive Funding and Mechanisms for Quality Adjusted Financial Penalties** - Reward Funding shall be allocated by a mechanism to be designed, created and approved by SWOG and IAWG in readiness for 'Year 2' (2017 – 18). Funding held by WSCC on behalf of the Boroughs and Districts shall not exceed 10% of the total monies due to each Borough or District in each and/or any financial year. All financial information including current position and end of year forecasts regarding Contingency funding, Incentive funds and Financial Penalties shall be reported to SWOG on a quarterly basis.

7.7 **Payment Methodology** - Payments including all adjustments due to the Boroughs and Districts for the above shall be made by WSCC. This payment methodology shall be reviewed and updated on an annual basis and reported to the SWOG.

## 8 Legal Consequences

8.1 The MOU is not a legally binding agreement and therefore if West Sussex County Council or another Waste Partner (District/Borough Councils) fails to abide by the terms of the MOU this Council cannot enforce the agreement directly against the County Council or other party. However under the Environmental Protection Act 1990 (EPA 1990) and associated legislation and guidance there is the requirement for West Sussex County Council as the disposal authority to make payments to Horsham District Council. Therefore where the County Council is under a statutory duty to do so, it is considered that the risks of non-performance are reduced. Under the EPA 1990 each respective authority must also make provision for Waste under its control and therefore where the respective authorities are

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under a statutory duty it is considered that the risks to this Council of non-performance by another authority are reduced.

### **9 Staffing Consequences**

9.1 There are no staffing consequences.

### **10 Risk Assessment**

10.1 A Risk log has been produced to account for impact on waste partners. Major risks and issues that may have an impact on the payment mechanism being delivered on time and within the budgetary constraints has been produced. The new MOU agreement and subsequent repayments mechanism allows an annual review to cover off any emerging risks to the waste partnership.

10.2 The agreement covers Levels of contingency funding that may cause a negative impact on budgets.

Appendix 1

Consequences of the Proposed Action

|  |  |
|--|--|
| <p>How will the proposal help to reduce Crime and Disorder?</p>      | <p>The Environmental Protection Act s46 covers materials deemed unsuitable for collection in specific containers supplied for recycling. The MOU agreement will afford authorities better opportunities to encourage residents to comply with the law</p>        |
| <p>How will the proposal help to promote Human Rights?</p>           | <p>There is no specific impact on Human Rights.</p>  |
| <p>What is the impact of the proposal on Equality and Diversity?</p> | <p>There is no specific implication on equality and diversity.</p>   |
| <p>How will the proposal help to promote Sustainability?</p>         | <p>The MOU and recycling mechanism proposal will help the Council deliver against its commitment to achieve EU Waste Directives and the Waste (England and Wales) Regulations 2011/12.<br/>It will assist the Council to reach 2020 recycling targets of 50%</p> |

Appendix 2

Horsham DC 5 year Financial Model Recycling Payment Mechanism with effect from 1.4.16 (Schedule 6 extract)

2016/17

| Dwelling Stock | Base Support per Dwelling | Dry Recycling Tonnages per Dwelling | Base Support per Tonne per Dwelling | Dwelling Stock | Bonus Support per Dwelling | Dry Recycling Tonnages per Dwelling | Bonus Support per Tonne per Dwelling | Recycling Payment Scheme Total | 2015/16 Allocation | Difference   |
|----------------|---------------------------|-------------------------------------|-------------------------------------|----------------|----------------------------|-------------------------------------|--------------------------------------|--------------------------------|--------------------|--------------|
|                | <b>£8.96</b>              |                                     | <b>£298,564</b>                     |                | <b>£3.28</b>               |                                     | <b>£109,378</b>                      |                                |                    |              |
| 59,009         | £528,812.95               | 0.22                                | £65,022.67                          | 59,009         | £193,728.77                | 0.22                                | £23,820.83                           | £811,385.22                    | £1,044,538.00      | -£233,152.78 |

2017/18

| Dwelling Stock | Base Support per Dwelling | Dry Recycling Tonnages per Dwelling | Base Support per Tonne per Dwelling | Dwelling Stock | Bonus Support per Dwelling | Dry Recycling Tonnages per Dwelling | Bonus Support per Tonne per Dwelling | Recycling Payment Scheme Total | 2016/17 Allocation | Difference |
|----------------|---------------------------|-------------------------------------|-------------------------------------|----------------|----------------------------|-------------------------------------|--------------------------------------|--------------------------------|--------------------|------------|
|                | <b>£8.20</b>              |                                     | <b>£623,916</b>                     |                | <b>£2.93</b>               |                                     | <b>£223,131</b>                      |                                |                    |            |
| 59,894         | £491,142.37               | 0.22                                | £135,879.10                         | 59,894         | £175,647.41                | 0.22                                | £48,594.49                           | £851,263.37                    | £811,385.22        | £39,878.15 |

2018/19

| Dwelling Stock | Base Support per Dwelling | Dry Recycling Tonnages per Dwelling | Base Support per Tonne per Dwelling | Dwelling Stock | Bonus Support per Dwelling | Dry Recycling Tonnages per Dwelling | Bonus Support per Tonne per Dwelling | Recycling Payment Scheme Total | 2017/18 Allocation | Difference |
|----------------|---------------------------|-------------------------------------|-------------------------------------|----------------|----------------------------|-------------------------------------|--------------------------------------|--------------------------------|--------------------|------------|
|                | <b>£7.39</b>              |                                     | <b>£978,328</b>                     |                | <b>£2.58</b>               |                                     | <b>£341,391</b>                      |                                |                    |            |
| 60,793         | £449,244.42               | 0.22                                | £213,064.53                         | 60,793         | £156,765.32                | 0.22                                | £74,349.57                           | £893,423.84                    | £851,263.37        | £42,160.47 |

2019/20

| Dwelling Stock | Base Support per Dwelling | Dry Recycling Tonnages per Dwelling | Base Support per Tonne per Dwelling | Dwelling Stock | Bonus Support per Dwelling | Dry Recycling Tonnages per Dwelling | Bonus Support per Tonne per Dwelling | Recycling Payment Scheme Total | 2018/19 Allocation | Difference |
|----------------|---------------------------|-------------------------------------|-------------------------------------|----------------|----------------------------|-------------------------------------|--------------------------------------|--------------------------------|--------------------|------------|
|                | <b>£6.52</b>              |                                     | <b>£1,363,281</b>                   |                | <b>£2.22</b>               |                                     | <b>£464,291</b>                      |                                |                    |            |
| 61,704         | £402,437.13               | 0.22                                | £296,901.26                         | 61,704         | £137,057.68                | 0.22                                | £101,115.41                          | £937,511.48                    | £893,423.84        | £44,087.64 |

2020/21

| Dwelling Stock | Base Support per Dwelling | Dry Recycling Tonnages per Dwelling | Base Support per Tonne per Dwelling | Dwelling Stock | Bonus Support per Dwelling | Dry Recycling Tonnages per Dwelling | Bonus Support per Tonne per Dwelling | Recycling Payment Scheme Total | 2019/20 Allocation | Difference |
|----------------|---------------------------|-------------------------------------|-------------------------------------|----------------|----------------------------|-------------------------------------|--------------------------------------|--------------------------------|--------------------|------------|
|                | <b>£5.59</b>              |                                     | <b>£1,780,557</b>                   |                | <b>£1.86</b>               |                                     | <b>£591,971</b>                      |                                |                    |            |
| 62,630         | £350,410.81               | 0.22                                | £387,777.62                         | 62,630         | £116,499.03                | 0.22                                | £128,922.15                          | £983,609.61                    | £937,511.48        | £46,098.12 |

Model assumes 1.5% annual increase in dwelling stock for 5 years.