

EAST LONDON WASTE AUTHORITY

27 SEPTEMBER 2010

FINANCE DIRECTOR'S REPORT

ALTERNATIVE METHODOLOGIES FOR CALCULATING THE ELWA LEVY	FOR INFORMATION
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1 Executive Summary

- 1.1 This report summarises the existing method by which the East London Waste Authority (ELWA) levy is set and looks at options as to how this methodology could be altered in order to use more current data and how the levy can be used to incentivise good practice. This report has been compiled after seeking the views of ELWA officers of the potential options.
- 1.2 Whilst this report identifies alternatives to the existing methodology, constituent councils are reminded that altering the apportionment of the levy is a zero sum game in that any reduction in the levy allocation to one borough is corresponded to an increase in the levy for one or more of the remaining boroughs.
- 1.3 The principal way in which constituent councils can have a definitive impact on the size of the levy is through reducing the amount of waste that is sent to ELWA for disposal. There is already an incentive for Councils to increase proportions of recycling as this is disposed of at a cheaper cost than waste that is directed to landfill.
- 1.4 Reaching a position where all four constituent councils agreed to a revised levy methodology will require time for local analysis and discussion. In addition, the nature of the waste flows to ELWA, and their treatment, is changing. Given this, time should be allowed for changes in waste management to be completed and then review how further incentives might be built into the levy scheme.
- 1.5 Therefore it is recommended that the Authority considers the existing and alternative methodologies outlined in the report but agrees to wait until the 2013/14 levy setting process to formally review the methodology.

2 Current basis of Levy Apportionment.

- 2.1 ELWA recommended and its constituent Councils unanimously agreed to the following levy apportionment arrangements with effect from 2002/03:
 - (a) A levy based on waste tonnage for costs attributable to Household Waste;
 - (b) A levy based on Council Tax Band D to apportion other costs attributable to, for example, Reuse and Recycling Centres, and the Aveley I landfill site.

3 Legal background to the methodology of apportioning the Levy

- 3.1 The Joint Waste Disposal Authorities (Levies) (England) Regulations 2006 is the statutory instrument that sets out when and how the levy should be apportioned and issued to constituent councils.

- 3.2 It states that the amount to be levied from each of the constituent councils shall be determined by apportioning the total amount to be levied between councils by either.
- (a) Such proportions as all the constituent councils may agree
 - (b) In the absence of such agreement, by a combination of the following proportions;
 - (i) the costs incurred in the disposal or treatment of household waste shall be apportioned in proportion to the tonnage of household waste delivered by each of these councils within the last complete financial year for which data is available
 - (ii) the costs incurred in the disposal or treatment of business refuse shall be apportioned between the constituent councils in proportion to the tonnage of business refuse deposited within the area of each of these councils within the last complete financial year for which data is available
 - (iii) all other costs shall be apportioned between the constituent councils by reference to the relevant proportion.
- 3.3 Therefore, it can be seen that ELWA's current approach to apportioning the Levy across the constituent councils is broadly in line with method b as the vast majority of costs relates to household waste. Which is apportioned in line with the method b i).

4 Reviewing the levy apportionment

- 4.1 There have been recent discussions between ELWA Officers and constituent councils around reviewing the adequacy of the methodology behind setting the levy. This paper provides options for approval and summarises the benefits and challenges that their introduction may create. Options are not exclusive of each other unless highlighted in the report.

5 Options

Following the approach laid out by the 2006 Regulations

- 5.1 ELWA and the constituent councils may choose to apportion the levy in line with that proscribed by the regulations, highlighted in section 3 of this report. This would lead to minor changes in the way business waste and other costs are apportioned but there would be no change in the way in which general household waste, the largest element of the cost within the levy, is calculated.
- 5.2 Such an approach would not resolve the issues raised by officers in 4.1 about the need to use more up to date data and to identify ways in which we can incentivise notable professional practices.

Using more up to date waste tonnage figures

- 5.3 One criticism of the existing Levy calculation is that it uses tonnage data that is historic and doesn't reflect the current position within the constituent councils. For example, when setting the 2010/11 levy in November 2009, 2008/09 data was used, which was the latest full year figures available.
- 5.4 An option to enable more up-to-date tonnage information is to use a rolling programme of the latest 4 quarterly tonnage figures. Therefore, when setting the 2011/12 levy towards the end of 2010, the tonnage data to be used would be
- 2009/10 Quarter 3 Tonnage
 - 2009/10 Quarter 4 Tonnage
 - 2010/11 Quarter 1 Tonnage
 - 2010/11 Quarter 2 Tonnage
- 5.5 However, clearly a change such as this now would alter the split of the levy between boroughs creating winners and losers.
- 5.6 Equally, constituent Councils may wish to go a step further in using the latest data by using a combination of actuals and estimates and base this element of the levy solely on 2010/11 data. As this would be an approach outside those laid down by the 2006 regulations, all constituent Councils would have to agree.
- 5.7 The disadvantages of using more up to date data is that there would be an increased risk that we would be using figures from constituent councils that would later turn out to be inaccurate. Inaccurate figures would impact on the apportionment calculation and ELWA would not be able to correct the apportionment until the following year. In-year upward adjustments to the levy cannot be made. A mechanism may need to be set up to review the accuracy of any estimates used, which would create an additional bureaucratic cost.

Using the levy methodology to incentivise recycling

- 5.8 Currently, the household waste element of the levy is based purely on a constituent council's proportion of general household waste. This approach could be amended by basing levy allocation on a total calculated by general household waste minus collected recycling levels.
- 5.9 This would ensure that constituent Councils that have a comparatively low level of collected recycling within the general household tonnage levels would be penalised through an increase in their apportionment. This is shown in the table below.

Table 1:

Example of how constituent council Levy apportionments would change if recycling performance became a factor in its calculation

Description	Borough A (tonnes)	Borough B (tonnes)	Borough C (tonnes)	Borough D (tonnes)	ELWA (tonnes)
Household general	38,700	57,300	89,200	62,800	248, 000
Household Bulky	1,300	1,350	3,200	980	6,830
Street Cleansing	3,000	3,800	12,400	3,400	22,600
Fly Tipping	2,600	2,400	9,000	600	14,600
Other Household	10	380	200	10	600
Clinical Waste	30	90	60	350	530
Collected recycling	12,500	20,800	12,200	18,100	63,600
MRF rejects	200	310	100	150	760
Sub Total general Household	58,340	86,430	126,360	86,390	357,520
General Waste Levy Apportionment (Current Approach)	16.3%	24.2%	35.3%	24.2%	
Sub Total – general Household Waste – Collected recycling	45,840	65,630	114,160	68,290	293,650
Revised Levy Apportionment	15.6% ▼	22.3% ▼	38.9% ▲	23.3% ▼	

TO NOTE: These figures are for illustrative purposes only.

5.10 This approach provides a financial incentive to constituent Councils to improve their levels of recycling, which is consistent with the financial incentive ELWA has within its payment contract with Shanks. However, this approach would need the support of all the constituent Councils. As outlined by the example above and in paragraph 1.2, any change in the way in which the levy is apportioned will create winners and losers. This needs to be considered as any change to the Levy methodology outside that described within the 2006 regulations needs agreement from all constituent councils.

5.11 There are other approaches to incentivising which could be considered including developing a differential charging mechanism that provides lower charges for recycling than that charged for general household waste. Such an approach is shown in the table below where general household waste is charged at a fixed price (£30 in this example) and a lower charge is set for collected recycling (£15 in this example)

Description	Borough A	Borough B	Borough C	Borough D	ELWA (tonnes)
General Waste Levy Apportionment (Current Approach)	16.3%	24.2%	35.3%	24.2%	
Sub Total – general Household Waste – Collected recycling (tonnes)	45,840	65,630	114,160	68,290	293,650
Total Household Waste Charge (£30)	£1,375,200	£1,968,900	£3,424,800	£2,048,700	
Collected recycling (tonnes)	12,500	20,800	12,200	18,100	63,600
Collected Recycling Charge	£187,500	£312,000	£183,000	£271,500	
Total Charge	£1,562,700	£2,280,900	£3,607,800	£2,320,200	£9,771,600
Revised Levy Apportionment	16% ▼	23.3% ▼	36.9% ▲	23.8% ▼	

Alternative costs drivers to Band D data

- 5.12 The existing Levy apportionment uses Band D data to apportion the other costs attributable to, for example, Reuse and Recycling Centres and Aveley I landfill site. The reasoning behind this is that the number of properties within each borough is a robust cost driver to use to apportion all of the other costs.
- 5.13 More relevant cost drivers could be identified for each of these additional costs so as to more accurately apportion them across the constituent councils. For example, the costs of commercial waste could be apportioned by the number of business addresses in the borough or the cost of gully detritus by the scale of the constituent council's highway network. However, this approach would create significant amount of additional work and constituent councils will have to trade off between increased accuracy of apportionment techniques and the additional cost of carrying this work out.
- 5.14 When considering other options to amend the levy methodology, there may be significant impacts to a particular Council, which may mean that a revised approach is undesirable in the short term. To counter this, gains and losses could be capped or phased into the levy over a period of time so as to ensure that no Council faces large levy increases immediately.

6 Conclusion

- 6.1 This report provides options for discussion as to how the Levy can be apportioned across the four constituent Councils. Any decision to amend the basis of the Levy needs to be agreed in time for the 2011/12 levy to be set, a process that begins in November and culminates in a report that will be presented at the ELWA Authority on the 7th February 2011. The last time the levy methodology changed, it took a

significant amount of time to reach agreement across all boroughs. Given the potential for significant differences in opinion across the four boroughs, Members must consider whether an agreement to change the methodology can be made within the timescales outlined.

- 6.2 Whilst this report identifies different ways in which the levy methodology can be altered, the key priority is to maintain ELWA's financial health and predictability of income. Any change in the methodology that impacts on either of these factors will not be in the best interests of the Authority.
- 6.3 Any methodology for apportioning the levy that differs from those outlined within the 2006 regulations must be agreed by all constituent Councils. Once agreed, there can be no in year upward adjustments to the levy charge. One Council could enforce the statutory position
- 6.4 It is important to continue to recognise that the apportionment of the levy is a 'zero sum game'. Any changes in the apportionment of the levy will mean that constituent Councils are competing against themselves. An improved position for one will automatically create a worse position for one or more of the others.
- 6.5 In order to identify ways in which all four constituent Councils can minimise its levy on a sustainable basis, the main area of focus should be on how waste can be minimised in the first instance as it is the level of waste sent to ELWA for disposal that is the principal driver of cost.
- 6.6 Previous experience of amending the levy methodology found that reaching unanimous agreement across all four constituent councils is a time consuming process. This would certainly be the case if the methodology would try to be amended in time for the setting of the 2011/12 levy. This would affect the ability for effective analysis and discussion to be undertaken by Members and officers of each of the constituent Councils.

7 Recommendation

7.1 Members are recommended to:

- (a) note this report; and
- (b) agree to wait until the 2013/14 levy setting process to formally review the methodology.

Geoff Pearce
FINANCE DIRECTOR

Appendices		
None		
Background Papers		
12/09/01	Report & Minute No. 1111	Levy Methodology