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| Service Delivery Committee | Tuesday, 22 March 2016 | Matter for Information and Decision |
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Title: **Withdrawal of Recycling Credit Payments by
Leicestershire County Council**

Author: **Mark Hall - Chief Executive**

1. Introduction

- 1.1. The purpose of this report is for Members to consider and agree a response to Leicestershire County Council's (LCC) consultation on its proposal to stop paying recycling credit income to the Borough. The consultation deadline is 30th March 2016.
- 1.2. Based on this response, together with the responses from all the other district Councils, LCC have stated that it will make a final decision on this issue later in the summer. LCC has also stated that the changes to the recycling credit scheme will be effective from April 2018.
- 1.3. Recycling Credits are an important source of income which has assisted this Council introduce very effective and successful recycling schemes over a number of years that are popular with residents and have had a positive effect on the environment. This has helped to reduce the amount of residual waste produced by householders and sent to landfill. The Council consistently recycles over 50% of its waste.
- 1.4. LCC is consulting on four options which would result in the partial or complete withdrawal of all recycling credit payments to the Council. The amount of income at risk to this Council is estimated to be between £49k and £430k per annum and is totally dependent upon on how much money LCC wish to save.
- 1.5. The consequences of any significant reduction of income by LCC is likely to be that the Council has to reduce the quality of its present recycling service which will in turn will have a negative impact on existing recycling rates.

2. Recommendations

- 2.1. That Members note the options being considered by LCC for reducing its current expenditure on recycling and how this will affect the Borough.
- 2.2. That Members approve the key points to be incorporated into the consultation response as set out in Section 4 of this report and that the Chief Executive be tasked to write an appropriate response based on those. The final wording of the response should be agreed by the Chief Executive in consultation with the Chair of the Committee and Leader of the Council.

3. Information

- 3.1. The responsibility for the collecting and disposing of waste in two tier areas is split between the county and district/Borough Councils. Locally Oadby & Wigston Borough Council (O&WBC) acts as the Waste Collection Authority (WCA) and

Leicestershire County Council (LCC) acts as the Waste Disposal Authority (WDA) with responsibility for the disposal of any waste collected.

- 3.2. In recognition of the need to divert waste from landfill, the Government introduced the recycling credit scheme through the Environmental Protection Act 1990 (EPA 1990) to incentivise recycling and composting of household waste by WCA's and by third parties. It makes available to recyclers, including this Council, the savings in disposal costs made by LCC that result from recycling household waste.
- 3.3. The introduction of this legislation meant that the WDA (LCC) had an obligation to pay the WCA's (O&WBC) the money it saved by diverting waste from landfill. The amount paid was directly linked to the cost of landfill disposal. As an exception to this regulation, WDAs are permitted to direct WCAs to use a processing facility of their choice. In this circumstance, the WDA would be liable for the processing costs and would not be obligated to pay recycling credits to WCAs. LCC elected, at that time, to pay recycling credits and to allow WCAs to make their own processing arrangements.
- 3.4. All WCAs have used the recycling credits to offset the cost of introducing higher performing recycling services. In 2006, a variation to this was agreed in Leicestershire due to the rising costs of landfill (linked to the introduction of Landfill Tax). The current level of recycling credit (£51.37 per tonne) equates to approximately half of the cost of disposing of residual waste.
- 3.5. Present legislation allows LCC to cease paying recycling credits to the districts if LCC directs a district where to take its waste, however LCC must then pay for any processing costs in addition to the existing disposal costs.
- 3.6. From April 2015, LCC in its capacity as the WDA, made the decision to direct the district/Boroughs for the treatment of garden waste and withdrew all of the green recycling credits. The net loss in income to O&WBC from this change was in the region of £80k per annum. At that time O&WBC Members recognised the value of this service to local residents and the loss of this income from LCC was offset by O&WBC finding additional efficiency savings. No change was passed onto the residents of the Borough with the green waste service remaining free to all. With the exception of one other district Council in Leicestershire all the other districts either introduced or increased the charge they made for the collection of green waste as a result of this.
- 3.7. The four options that LCC are consulting on are as follows:

- a. Reach a local agreement to reduce the value of the Recycling Credit.

This will not be beneficial to O&WBC if the level of the revised Recycling Credit falls below its cost of collection and processing.

- b. Develop and agree a new payment to incentivise reduction in residual waste/increase recycling.

This is far too complex and relies on too many variables and unknowns which will place huge financial risks on O&WBC. O&WBC already has one of the

very lowest levels of residual waste per household in the country so any incentive scheme would have little value for the Council.

- c.** LCC procures capacity for all district dry recycling and directs the districts to use it.

No recycling credits will be paid by LCC to any of the districts but LCC will have to bear all the cost of processing and will keep any income from the sale of recyclates.

- d.** LCC to build a Materials Recycling Facility and direct Districts to use it.

No recycling credits will be paid by LCC to any of the districts but LCC will have to bear all the cost of processing and will keep any income from the sale of recyclates.

- 3.8.** The income derived from recycling credits during 2015/16 is currently expected to be £180k (based on a recycling credit rate of £51.37 per tonne). This is expected to be £185k in 2016/17.
- 3.9.** During the year 2012/13 the recycling income for the onward sale of the dry recyclates (not including green) produced by the Council's Material Recycling Facility (MRF) was £388k. As a result of significant market changes and increased regulation, this reduced to £230k in 2015/16. The sales income for 2016/17 is expected to be £230k as markets have plateaued out at present.
- 3.10.** For Option 1, the financial impact is difficult to assess as the exact amount of recycling credit that would be paid by LCC to the districts is not known. Assuming the recycling credit is reduced in line with the current LCC savings requirement (73% of existing figure), the credit would be £37.50 per tonne, giving a total of £131k per year based on current levels. The annual loss to O&WBC would therefore be £49k per annum in 2018/19. O&WBC would still retain all income from the sale of the recyclates.
- 3.11.** LCC have stated that if any of the district Councils were to accept this option then they would be legally required to continue to provide the level of recycling service that they do at the moment i.e the method of collection and frequency of collection.
- 3.12.** It is important to emphasise that if this option was agreed by LCC and resulted in it achieving its present saving target of £1 million per year from all of the districts that LCC has still not ruled out the need to find further savings under this option. On that basis that could amount to having to finding a total of up to £3.4 million in savings per year from all the districts. In the worst case this would mean the withdrawal of all recycling credits, other than paying a notional amount, to every district. If this were to be the case then O&WBC would have to review its entire recycling operation to reduce the cost of the service in order to compensate for LCC withdrawing the recycling credit income. Out of financial necessity, the Council would have to completely review how its collects the recyclates, the frequency of how often it is collected, if it is viable to continue to operate its MRF and if the Council should

charge for the collection of green waste

- 3.13.** For Option 2, the financial impact cannot be assessed as the incentive mechanism is yet to be identified. This could be implemented in addition to any of the other options being considered. It is recommended that this option is rejected at the present time as the risks to O&WBC are unquantifiable. It should also be noted that O&WBC already has one of the very lowest levels of residual waste per household in the country so any incentive scheme would have little value for the Council.
- 3.14.** Option 3 and 4 would have the same impact financially. O&WBC would lose all the income from all the recycling credits of £180k (based on current year figures) together with the loss of all the income from the sale of the recyclates which would be £230k i.e a total loss of income of £430k per year. Under both of these options LCC would then be under an obligation to pay for the processing of the recyclates which is currently borne by O&WBC in the form of its own MRF.
- 3.15.** The Council would therefore no longer need to operate its MRF and could collect the recyclates in a more cost effective way and less frequently.
- 3.16.** For Options 3 and 4 LCC could direct O&WBC to take its recycling to a processing site that isn't conveniently located for tipping. Each recycling vehicle currently tips off at least twice a day on collection days. This could therefore have an impact on permitted driving hours and may result in inefficient rounds. Tipping away fees may be payable by LCC in some circumstances but these will be minimal and will not compensate O&WBC for the level of service disruption.

4. Suggested Response

That as a result of the consideration of this report by Members that the Chief Executive be tasked to write to LCC in response to its consultation on the following basis.

That Oadby & Wigston B.C:

- i.** Deplores LCC's proposal to withdraw recycling credit payments as this is purely a financially based decision that does not take into account the negative knock on effect that this will have on district Council services to residents or to the environment in the form of recycling rates and the diversion of waste from landfill.
- ii.** That reluctantly the Council would consider Option 1 as long as the level of the recycling credit agreed was at least £37.50 and there was an agreement that this was not then reduced in subsequent years as LCC searches for further savings
- iii.** That the Council would not presently consider Option 2. The Council would be prepared to look at it when more detailed work has been done and there is reassurance that O&WBC was not going to be penalised for already having very, very low residual waste arisings, one of the lowest in the country.
- iv.** That if LCC pursues Options 3 or 4 where all of the recycling credits are withdrawn then the Council would have no option other than to review and significantly downgrade the quality of its existing recycling service. This would be highly likely to have a negative effect on recycling rates and therefore

increase the amount of residual waste that LLC would have to pay to have land filled.

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| Implications | |
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| Financial (CR) | As set out in the report. |
| Legal (AC) | Independent legal advice confirms that LCC are able to legally withdraw the recycling credit payments as set out in the report as long as it has been through a formal consultation process with the district Councils. |
| Risk (MH) | Significant financial risk to O&WBC that will be factored into the Council's Medium Term Financial Strategy. |
| Equalities (AC) | If as a result of the withdrawal of recycling credit payments the quality of the Councils recycling service has to be reduced then this will affect all residents. |