

Lyons Inquiry into Local Government

Extract from a Submission by CSS

WASTE MANAGEMENT

General Overview

The challenges faced by local authorities in respect of the management of waste have increased substantially in recent years. All local authorities have major concerns regarding the rising costs of waste collection and disposal, and the impact this is having on our ability to deliver other services also facing financial pressures. Waste disposal authorities are particularly concerned that despite their best endeavours, the new treatment plants required to process municipal waste may not be delivered in the required times scales to meet Government imposed targets in respect of diversions from landfill. In elaborating on our concerns in this submission, we wish to express our support for the principles behind the Government's strategy for waste management. Our concerns are about funding and deliverability.

The Government's vision of sustainable waste management was set out in *Waste Strategy 2000*. The main environmental rationales for action were to reduce the impact of waste on climate change, to conserve limited natural resources, and to reduce the risks to health and the environment from potentially harmful substances within waste. The approach was encapsulated in a Waste Hierarchy starting with waste prevention, re-use, recycling & composting, energy recovery and finally disposal.

The principles behind the strategy and waste hierarchy continue to receive wide spread support from local authorities. We fully support the concept that we need to reduce the amount of waste that is generated, and maximise the amount of municipal waste that can be put back into beneficial use, thus reducing the volumes that must ultimately be disposed as waste. The CSS response to the recent consultation on the Review of England's Waste Strategy confirms our ongoing support for the revised strategy. In our view, the revised strategy together with recently released planning guidance PPS10 provides an excellent platform on which to guide the delivery of the waste treatment infrastructure that is required to meet national obligations under article 5 of the European Landfill Directive.

Local authorities have responded positively to the requirements of the strategy, and more specifically, the driver for improvement presented in terms of the Landfill Allowances Trading Scheme (LATS). Municipal Waste Strategies have been prepared, jointly in two tier areas, with an emphasis on reducing waste through awareness campaigns, and on introducing a wide variety of initiatives to increase kerbside recycling and composting, and to provide recycling centres. Many waste disposal authorities have either completed or are well advanced in progressing complex procurement processes for new waste treatment facilities. In two tier areas, collaborative working between collection and disposal authorities has been developed. Site specific Waste Local Plans/ Local Development Frameworks are either adopted or are being prepared to facilitate the delivery of sites for new treatment facilities.

The Regional Centres of Excellence/LGA are providing helpful advice and information that should result in efficiency savings on future procurement processes. Defra offers a range of support programmes across all waste activities.

Notwithstanding the positive response by local authorities, and the support offered, **there is a crisis looming within local and national government** in respect of waste management for the following reasons:

- **Rising Costs** – The substantial increases in capital and revenue costs of waste management are not being matched by Government grant settlements resulting in diversion of funding from other front line services
- **Delivery of New Waste Treatment Facilities** -There is evidence emerging that there is a very strong likelihood that many of the new waste treatment plants required to divert waste from landfill will not be delivered in time for some individual authorities and the nation as a whole to meet landfill allowance targets in critical years e.g. 2009/10. Failure to meet these targets exposes national government to substantial fines which will be passed on in whole or part to local authorities. Failure to meet government set landfill allowance targets exposes individual local authorities to substantial increased costs through trading of allowances if available or penalties set at £150 per tonne.

This submission expands on these two issues, indicating where further evidence can be obtained. It also touches on a few other issues that will have a significant impact on waste management, including ideas under consideration for variable charging for waste generated.

Rising Costs

A Joint Waste Review is currently under way involving officials from Defra, DLGC, the Treasury, and representatives of Local Government co-ordinated by the LGA. A CSS representative is amongst those attending the Review meetings and advising the LGA. The purpose of the Joint Review is to inform the Comprehensive Spending Review 2007 process. It would clearly be inappropriate for CSS to release any information from that review process whilst it is ongoing, but in that it is considering all of the points contained in this submission, and is gathering evidence, CSS strongly recommends that your review process gains access to that information through Defra.

The Society of County Treasurers and CSS have recently carried out a joint survey covering all Counties on waste management costs, and we understand that the Society of District Treasurers is also doing work to establish the position for collection authorities and Unitary authorities. The results of all this work is being submitted to the LGA as input to their submission to the CSR2007 process, and will be made available to the Joint Waste Review team.

Without prejudice to what the final reports might state when all of the evidence is analysed, preliminary indications are that for Counties, over the next five year period waste revenue costs are predicted to rise by an average of over 50%.

These estimates are based on assumptions that include the impact of ongoing increases in Landfill Tax, LATS allowances trading, and the revenue implications of investment in planned waste treatment facilities.

CSS has two propositions for your review to consider

- That CSR2007 takes full account of the evidence available through the Joint Waste Review process and allocates sufficient capital and revenue funding for waste management to ensure that local authorities can meet the obligations of the Landfill Directive without diverting funding away from other front line services, for example highways and transport budgets.
- That there is a separate block allocation in grant settlements in respect of waste management to provide transparency and accountability in terms of spending on waste. We have in the past been told extra funding has gone into the EPCS block, but it has been difficult to identify.

The estimated costs identified earlier are also based on assumptions that collection authorities will achieve the required levels of waste minimisation, recycling and composting to achieve the residual waste volumes being planned for by waste disposal authorities (generally 45-50%). There is no guarantee that collection authorities will achieve the required performance levels, and significantly, the financial consequences of any under performance by the collection authorities is carried in full by the waste disposal authority (disposal costs plus allowances trading or fines).

CSS is concerned that whilst some collection authorities are already achieving the required recycling/composting rates of around 45-50%, some are still failing to achieve the current Statutory Performance Standard of 18-20%. In responding to a Defra consultation document on this topic in January 2006, CSS expressed the view that the Statutory Performance Standards imposed on collection authorities were not sufficiently challenging to maintain the momentum on improving recycling and composting. The consultation document suggested targets for 2007/08 of 18-20% with no targets set beyond that. Our view is that without challenging targets, some collection authorities will not make the investment to meet the higher recycling compost rates adding further to disposal authority costs. We suggested an average of 30% by 2007/08 rising to 45% by 2009/10. The financial implications of this need to be included in grant settlements.

CSS has two propositions for your review to consider

- That Defra be asked to raise the Statutory Performance Standards on collection authorities for interim years leading to an average of 45% by 2009/10
- That some form of intervention mechanism be considered in cases where collection authorities are underperforming, possibly including shared risk on exposure to increased disposal authority costs.

Delivery of new waste treatment facilities

Encouraged by the clearly identified drivers of achieving environmentally sustainable waste management solutions and more recently the Landfill Directive targets, waste disposal authorities have commenced the complex planning and procurement processes to secure new waste treatment facilities.

The PFI funding support route for waste treatment facilities has been in existence for a few years, and a few projects have completed the various stages and contracts have been awarded. It is probably fair to say that the processes and criteria for a successful PFI bid on waste projects has been evolving in response to issues around planning risk, market capacity, and guarantees on technology. Whilst each situation will be unique to particular circumstances, there are some issues that will apply in every procurement process, whether PFI credits are being sought or not:

- The waste sector market is overheated with demand for projects outweighing supply. Evidence of this was gathered by a recent study carried out by the Office of Government Commerce ref “OGC Kelly Report to the Financial Secretary to the Treasury: Improving Competition and Capacity Planning in the Municipal Waste Market May 2006”. The competitive process is being undermined on individual projects.
- Waste projects have significant risks associated with them, including the need to secure full planning permission for a particular waste treatment facility, and uncertainties within the Environment Agency’s regulatory framework in respect of various emerging technologies. The residual materials at the end of various treatment processes may or may not still be regarded as waste. If it is waste, it continues to count against LATS targets. The doubts about whether some new technologies will deliver the diversions from landfill are making local authorities very nervous about entering into long term contracts that rely on those technologies.
- In respect of PFI bids, there are significant problems in terms of issues raised by the private sector in respect of risk allocation, and the process itself is protracted, and appears to be inflexible in respect of making provision for introducing further investment to take advantage of emerging technologies.
- Affordability is a critical issue. There is evidence that waste projects procured through the PFI route are becoming increasingly expensive. Several authorities, including Dorset, Gloucestershire and Derbyshire have concluded that the PFI route is not give the best value for money and may not be affordable.
- The waste treatment plants still have to be procured to meet the LATS targets. Alternative means of financing new treatment plants that provide interim solutions pending resolution of technology issues are emerging as the preferred route. These can be financed by the private sector providing the capital or through Prudential Borrowing. The revenue impact of funding in this way is a contributory factor in the rising costs of waste management referred to above.

CSS has three propositions for your review to consider:

- A fundamental review of the PFI process for waste procurement to speed it up, create more certainty throughout the process, and increase the flexibility for the phased introduction of further investment.
- Ensure that the Environment Agency clarify the regulatory framework with respect to various technologies as a matter of urgency. This uncertainty is preventing procurement processes being concluded.

- The Government should give a much stronger signal to both local authorities, the industry and the public that energy from waste solutions should be looked on more favourably.

Other Matters

Joint Working in Two Tier Areas

Under current legislation, co-operation between the waste disposal and collection authorities relies on voluntary partnerships. These can be based on undocumented understandings between officers and elected Members from each authority, more formal arrangements based on Memoranda of Understanding, or formal arrangements with Joint Committees with delegated powers. Hampshire and Essex County Councils are good examples of the more formal approach.

Joint working, whether formal or informal, is essential to deliver efficient waste management services that meet landfill diversion targets. Integrated waste collection and disposal contracts covering whole Counties, however desirable, are extremely difficult to deliver in practice. However good the partnership arrangement, it is never an easy path with understandable concerns about loss of independence, control, reputation etc. The ongoing debate about the potential for local government restructuring is not helpful in this respect.

Looking to the future, the pressures on waste disposal authorities to meet LATS targets may result in more disposal points and recycling centres being owned by waste disposal authorities, possibly in partnership with adjacent authorities and the private sector. The revised Waste Strategy for England is encouraging authorities to influence and work in partnership with those responsible for other non municipal waste streams. This presents a whole new agenda which will complicate procurement processes, but may lead to better use of the capacity in the market and reduced costs if investment and risk is spread over significantly larger waste streams.

CSS has no specific propositions for your review to consider at this time other than to repeat the earlier proposition in respect of ensuring the performance of collection authorities. It is up to Local Government, perhaps through the Centres of Excellence to share best practice on joint working.

Variable Charging for Waste Collection

CSS is aware that Defra is giving serious consideration to the introduction of variable charging for non recyclable waste collected from households. Defra has commissioned consultants (Eunomia) to do research into this proposal including how this is implemented in other European countries.

Our understanding is that it is likely to be a power rather than a duty. There are obvious issues for local politicians to address in determining whether to exercise such a power as a charging regime will not be very popular with Council Tax payers.

Practical issues to be resolved will include the potential for neighbourhood disputes, fly tipping and disputes about billing, all matters currently the responsibility of the collection authorities.

CSS would ask you to consider the following points:

- CSS would support in principle any initiative that resulted in a reduction in the volume of residual waste coming for treatment and disposal, provided that in its implementation, it did not generate other costs or environmental problems that outweighed the benefits.
- Is the motivation for variable charging to reduce residual waste volumes or to generate additional revenue to off set the increasing costs of waste management? How will public perception be managed? (cf Speed cameras)
- As with many other charging schemes, there is the potential for exacerbating social inequalities in such a scheme. How will this be addressed?
- Who will determine the level of charges – locally determined or against national benchmark figures?
- How will the revenue generated be distributed between collection and disposal authorities?
- How do we prevent the perverse incentive of “the more waste we collect the more money we get!”