

Meeting: Joint Waste Committee
Date: 1 October 2004
Report of: Project Director
Subject: Integrated Waste Management Service Contract -
Financial Update
Wards affected: All

1. Purpose of the Report

- 1.1 To update the Joint Waste Committee on the financial performance of the Integrated Waste Management Services Contract (IWMSC) and associated financial issues.

2. Recommendations

- 2.1 That the report is noted.
- 2.2 That Councillors Jones and Bodfish write on behalf of the Committee to DEFRA raising concerns about the implications the Landfill Allowance Trading Scheme has for both Councils.

3. Current Operation

3.1 Final Outturn 2003/04

- 3.1.1 The accounts for the first full year of operation were closed successfully. The final reconciliation required at Month 15 under the Contract has been completed resulting in only very minor adjustments necessary to reflect the actual compared to forecast position. In total, payments under the Contract amounted to some £7.76m and £4.96m for East Sussex County Council (ESCC) and Brighton & Hove City Council (B&HCC) respectively.

3.2 Contract Payments 2004/05

- 3.2.1 Monthly Contract payments continue to be made based on forecast information. Towards the end of the last financial year agreement was reached with Onyx on an appropriate level. While a reconciliation payment is likely, the timing has a positive impact on cash flow and therefore the agreement is favourable for both Councils.

3.3 Corporate Waste Reserve

- 3.3.1 Longer term projections and affordability of the Contract over the full 25 years are reviewed periodically. Minor variations in each year are not significant enough to require any change in the additional investment required by each Council.
- 3.3.2 Any change in the timing of new facilities may carry a financial implication and the effects are modelled to ensure the overall programme remains affordable. There is considerably more financial risk arising from the introduction of the Landfill Allowance Trading Scheme (LATS) and this is covered further below.

4. Future Financial Issues

4.1 PFI Grant

- 4.1.1 A new system for PFI Grant was recently announced as one of the outcomes of the Government's 2004 Spending Review. The basic framework has been agreed which will essentially move the grant to an annuity based system. Under this arrangement there would be a constant grant payment for the period of the PFI Contract rather than the current grant which is paid on a reducing balance and which extends well beyond the end of the Contract period. Local authorities are being consulted on certain aspects regarding the detail of the calculation and transitional arrangements.
- 4.1.2 It is not yet clear whether the new arrangements will apply to existing projects. Both Councils are modelling the effects of the new arrangements and will be responding to the consultation during October.

4.2 Recycling to Local Authorities of additional Landfill Tax Revenues

- 4.2.1 The Government announced in the 2003 Budget that the standard rate of landfill tax would increase by £3 per tonne in 2005/06 and by at least £3 per tonne per year after that. This cost is already reflected in the PFI budgets for both Councils. In the Spending Review 2004 the Government stated that the additional funding for the Environment, Protective and Cultural Services (EPCS) block grant includes provision to ensure that the increases in landfill tax are revenue neutral to local authorities as a whole in 2006/07 and 2007/08. However, recycling of the revenues in 2005/06 will be carried out in the autumn as part of the local government finance settlement.

4.3 Landfill Allowance Trading Scheme

- 4.3.1 The European Landfill Directive requires a dramatic reduction in the amount of biodegradable waste collected by Councils going to landfill by the year 2020. This is to reduce landfill gasses and leachates. The Contract takes account of this and the construction of new waste management facilities is timed to ensure the requirements of the Directive are met in the Directive target years.
- 4.3.2 In England the Government intends to manage down biodegradable waste by issuing tradable permits from 1 April 2005 (the Landfill Allowance Trading Scheme) and imposing significant penalties on Councils that exceed their limits. The purpose of this is to give a strong disincentive to Waste Disposal

Authorities to breach the Directive. Unfortunately, even though East Sussex and Brighton & Hove have acted responsibly and already significantly increased investment in sustainable waste management and taken steps to comply with the European Landfill Directive, the mismatch between the Contract programme, already endorsed by DEFRA, and the Landfill Allowance Trading Scheme could result in both Councils incurring significant penalties.

- 4.3.3 All scenarios need to be modelled to assess the possible impact on each Council's corporate waste reserve. There are many variables including waste growth, delays to delivery of the new facilities, the level of recycling undertaken, etc. To give an indication of the scale of the financial implications involved the Councils will be fined £200 for each tonne of biodegradable waste they landfill in excess of their permits. Just prior to operation of the ERF it is estimated the Councils could, in the worst case, incur penalties of over £10 million.
- 4.3.4 Both Councils will require regular briefings as more detail and certainty emerges but officers recommend that the Joint Waste Committee write to the Department for Environment, Food and Rural Affairs now flagging serious concerns about the impact this Scheme could have on both Councils notwithstanding steps have already been taken to comply with the Landfill Directive.
- 4.3.5 Despite these difficulties the steps the Councils have already taken have made them considerably more secure than would have been the case without the IWMS. Waste Disposal Authorities with no plans firmly in place face far greater financial risk given the lead in time required to develop any new sustainable waste management facilities.

5. Legal Implications

- 5.1 The implications of the Landfill Allowance Trading Scheme are set out in the body of the report. To date, where Contract changes have been required, these have been successfully negotiated between the Councils and Onyx.

6. Background Papers

- 6.1 Landfill Allowance Trading Scheme.
- 6.2 Government 2004 Spending Review.

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