

HERTFORDSHIRE COUNTY COUNCIL

COMMUNITY SAFETY & WASTE MANAGEMENT CABINET PANEL

FRIDAY 4 MARCH 2016 AT 10:00

ALTERNATIVE FINANCIAL MODEL (AFM) FUNDING REVIEW

Report of the Chief Executive & Director of Environment

Author: James Holt, Waste Manager - Contract Development
Tel: 01992 556318

Executive Member: Richard Thake, Community Safety & Waste Management

1. Purpose of report

- 1.1. To make the Cabinet Panel aware of the consultation submitted to the Hertfordshire Waste Partnership (HWP) on proposals to reduce the base position 'pot' to assist the County Council in meeting its substantial savings targets and guarantee an unchanged Alternative Financial Model (AFM) mechanism for a period of four years.
- 1.2. The report which was presented to the HWP Member Group meeting on 25 January 2016 is attached at Appendix 1.

2. Background

- 2.1. The AFM was first established in 2008 to reward Waste Collection Authorities (WCAs) for reductions in residual waste levels in order to meet targets. The model has since evolved to incentivise WCAs to make improvements at the kerbside which reflect actual savings to the County Council as the Waste Disposal Authority (WDA) in the payment of disposal services for residual, organic and recycled waste.
- 2.2. The AFM has been successful in incentivising WCAs to make service changes which have resulted in reduced disposal costs for the WDA. However, 90 per cent of the savings made are paid back to the WCAs as their reward, therefore not realising significant savings for the County Council.
- 2.3. The County Council is keen to retain the AFM at the moment as it continues to incentivise WCAs to make savings which are in the best interests for the overall council tax payer. In addition, should waste start to increase, which is the case with five of the ten WCAs that have not made recent service changes, the WDA is insulated from increased costs (up to the value of the AFM and excluding Household Waste Recycling Centres) as where WCA disposal costs increase the AFM payment reduces, resulting in a cost neutral position for the WDA.

- 2.4. However, recognising the increased pressure on the public purse and the large savings targets the County Council has to achieve a proposal has been put to the HWP to reduce the payments made through the AFM by £334,000 in 2017/18 and a further £333,000 in 2018/19 and 2019/20 (£1 million in total over three years starting from 2017/18) with a guarantee not to change the mechanism during the same period.

3. Recommendation

The Cabinet Panel is asked to note the contents of the report.

4. Consultation process

- 4.1. The consultation process and report was presented to the HWP Members group on 25 January 2016. Following some brief discussion it was agreed to extend the deadline for the return of comments to Monday 4 April 2016.
- 4.2. Responses received will be summarised and reported back to the HWP Member meeting on 25 April 2016 with the aim being to also propose a way forward although this may require further engagement with this Panel depending on the feedback received from the WCAs.

5. Financial implications

- 5.1. Subject to the outcome of the consultation process it is proposed to reduce AFM payments by £334,000 in 2017/18 and a further £333,000 in 2018/19 and 2019/20, totalling £1 million towards the County Council's significant savings targets.

APPENDIX 1



HERTFORDSHIRE WASTE PARTNERSHIP

MEMBERS' GROUP 25th January 2016

Item 7 – Alternative Financial Model (AFM) funding review

Author: Simon Aries and James Holt

1 Purpose of Report

- 1.1 To consult on proposals to guarantee an unchanged AFM mechanism for a period of four years whilst reducing the base position 'pot' to assist the County Council in meeting its substantial savings targets.
- 1.2 To highlight significant projected improvements to AFM payments as a result of recent and proposed service changes.

2 Background

- 2.1 The County Council has made significant efforts in delivering more financially efficient services in recent years. Whilst it is appreciated that all partner authorities face similar challenges, the Waste Disposal Authority (WDA) is, like all other County Council services, obliged to consider how further financial savings may be delivered.
- 2.2 The AFM is a non-statutory inter-authority payment of significant size and its continual application and evolution in recent years is reflective of a strong commitment on behalf of the County Council to delivering the aims and objectives of the Hertfordshire Waste Partnership (HWP).
- 2.3 The AFM was established in 2008 to reward Waste Collection Authorities (WCA) for reductions in residual waste levels in order to meet targets. The model has since evolved to directly reward WCAs

that make improvements to kerbside services which translate into actual net savings to the County Council, as the WDA, in the payment of disposal services for residual, organic and recycled waste.

- 2.4 The AFM works in two parts; (i) a Base Position for each WCA is calculated determined on size of authority and their relative average cost to the WDA and (ii) the 'In Year Performance' which calculates the actual savings or costs generated by each WCA in comparison to the previous year.
- 2.5 The AFM 'pot' is the total amount paid out by the WDA at the end of each financial year and is the starting point for the following year's Base Position.
- 2.6 The current AFM was approved in January 2013 and was subsequently reviewed in 2014 to ensure the model was working as intended. This resulted in a phased two year realignment of the baseline 'pot' to ensure the rewards generated through the model reflected actual savings in waste disposal made by the WCAs since it conception in 2008/09.

3 Projected future payments

- 3.1 Tables 1 and 2 show the actual and projected 'pot' for the new model and the payments to individual WCAs respectively. It should be noted that all figures in this report are based on projections / assumptions detailed in appendix 1, are subject to change, and are provided for illustrative purposes only.

	AFM pot total
2013/14	£3,018,615
2014/15	£2,801,766
2015/16 (Projected)	£3,039,090

	2013/14	2014/15	2015/16 (Projected)
Broxbourne	£237,765	£160,616	£241,478
Dacorum	£340,104	£385,198	£657,656
East Herts	£327,338	£276,230	£256,717
Hertsmere	£241,886	£201,716	£182,829
North Herts	£605,674	£469,564	£284,796
St Albans	£479,362	£473,042	£449,849
Stevenage	£218,297	£97,381	£186,425
Three Rivers	£157,103	£238,783	£270,438
Watford	£187,363	£223,963	£173,492
Welwyn	£223,723	£275,272	£355,411

Hatfield			
Total Pot	£3,018,615	£2,801,766	£3,039,090

- 3.2 It is interesting to note that overall collected waste is projected to increase in 2015/16 compared to the previous year but despite this AFM payments are expected to increase. This reflects changes in collection services and disposal routes for food waste and street sweepings which significantly reduces disposal costs and directly awards those WCAs introducing changes.
- 3.3 Table 3 highlights the current projection for 2016/17 through to 2019/20, taking into account the assumptions in appendix 1. As in recent years, if WCAs make service changes that provide savings in disposal, the size of the pot will increase:

	2016/17 (Projected)	2017/18 (Projected)	2018/19 (Projected)	2019/20 (Projected)
Broxbourne	£338,620	£342,742	£325,637	£318,841
Dacorum	£594,850	£542,869	£497,365	£534,820
East Herts	£369,540	£417,142	£451,719	£466,207
Hertsmere	£253,101	£277,406	£297,196	£302,754
North Herts	£373,058	£429,559	£479,185	£484,587
St Albans	£596,710	£622,381	£591,713	£544,793
Stevenage	£215,793	£257,386	£262,505	£278,286
Three Rivers	£384,665	£328,256	£328,549	£324,339
Watford	£229,467	£275,670	£306,790	£325,657
Welwyn Hatfield	£427,937	£389,316	£380,380	£377,382
Total Pot	£3,783,740	£3,882,727	£3,921,039	£3,957,667

4 Proposal

- 4.1 It is proposed to reduce the base position 'pot' by £1 million over the next four years starting in 2017/18 as shown below:

	2016/17	2017/18	2018/19	2019/20
Reduction	£0	£334,000	£333,000	£333,000

- 4.2 It is planned to combine this with giving surety over the continued application of the AFM model for a period of four years, with a scheduled review to commence in 2018.
- 4.3 Not only will this provide assurance for the next four years (subject to in year waste growth / reductions) the model will continue to work by rewarding each authority for its in year performance i.e. each WCA will

still be directly rewarded for making positive service changes. As the projections in table 3 show service improvements will significantly reward those making the changes.

4.4 This change has been timed to correspond with the significant additional value that is projected to be added to the 'pot' in the form of the new street sweepings recycling contract and recent / planned service changes made by a number of WCAs. As a result the proposed reductions should have a lower impact on WCA budgets.

4.5 The potential impact of these changes are shown in Table 4:

	2015/16 (Projected)	2016/17 (Projected)	2017/18 (Projected inc. £334k reduction)	2018/19 (Projected inc. £333k reduction)	2019/20 (Projected inc. £333k reduction)
Broxbourne	£241,478	£338,620	£316,009	£272,360	£239,240
Dacorum	£657,656	£594,850	£496,959	£405,839	£397,726
East Herts	£256,717	£369,540	£377,158	£372,026	£346,747
Hertsmere	£182,829	£253,101	£251,469	£245,521	£225,556
North Herts	£284,796	£373,058	£388,273	£396,863	£360,760
St Albans	£449,849	£596,710	£578,685	£503,373	£411,526
Stevenage	£186,425	£215,793	£233,709	£215,327	£207,921
Three Rivers	£270,438	£384,665	£300,703	£273,605	£241,699
Watford	£173,492	£229,467	£248,053	£251,744	£243,535
Welwyn Hatfield	£335,411	£427,937	£357,710	£317,380	£282,957
Total Pot	£3,039,090	£3,783,740	£3,548,727	£3,254,039	£2,957,667
DIFFERENCE	£0	£0	-£334,000	-£667,000	-£1,000,000

5 HWP consultation

5.1 In line with the Hertfordshire Waste Partnership Agreement (HWP) the WDA is seeking feedback on these proposals.

5.2 Clarifications or questions related to this report and proposal will be addressed with any responses provided to all WCAs to ensure a common understanding and provide transparency (unless a specific confidential request is received).

5.3 Comments on the proposal are sought by Friday 4th March 2016 and should be sent by email to Simon Aries (simon.aries@hertfordshire.gov.uk).

- 5.4 The aim is for a paper to be presented to HWP Member Group in April 2016 setting out the County Council's response to the consultation.

Appendix 1

All projections in this report are based on a number of assumptions as set out below:

- Does not include any increase in tonnage as a result of population growth.
- Assumes all disposal rates stay the same.
- Projects full year impact of service changes introduced by Dacorum Borough Council and Three Rivers District Council during 2014/15 – separate food waste and commingled dry recycling collections.
- Projects changes made by Broxbourne Borough Council from October 2015 – Reduced residual waste capacity through small wheeled bins and fortnightly collections, associated increase in dry recycling and cardboard diverted from the organic waste stream into the dry recycling scheme.
- Projects impact of new street sweeping recycling contract from April 2016.
- Projects potential services changes by St Albans City and District Council from June 2016 – Introduction of separate food waste collections with recycling collections remaining the same.
- Projects potential introduction of green waste changing by Three Rivers District Council resulting in a 20% reduction in green waste collected.
- Incorporates reduced gate fees from April 2018 as the Envar IVC contract ends and St Albans and Watford are redirected to alternative disposal sites.