

Agenda Item No:

NORTH LONDON WASTE AUTHORITY

REPORT TITLE:

REVIEW OF RECYCLING CREDIT PAYMENT SCHEME

REPORT OF:

HEAD OF WASTE STRATEGY AND CONTRACTS

FOR SUBMISSION TO:

AUTHORITY MEETING

DATE:

20 September 2006

SUMMARY OF REPORT:

The change to a tonnage based levy system has removed the requirement to pay recycling credits to the Boroughs, but the potential for third parties to make a claim remains. This report advises members of the new recycling credit scheme introduced by the Government and the effect on the Authority. The new regime is to take effect on 01 April 2007 and the report includes recommendations for actions that the Authority should take to comply with it.

RECOMMENDATIONS

The Authority is recommended to:

- (i) Approve the policy proposed in Section 6 of the report.
- (ii) Note the new recycling credit payment scheme and the effect on the Authority.

**Signed by Head of Waste Strategy
and Contracts**

.....

Date:

1.0 OVERVIEW

- 1.1 Recycling credits were introduced by Section 52 of the Environment Protection Act in 1990. The Authority commenced payments of recycling credits in 1993 and has continued to pay them since. In 1993 recycling credits were the only financial or regulatory incentive to reduce waste to landfill but today there are a number of measures designed to promote more sustainable waste management, principally the landfill tax and the landfill allowance trading scheme (LATS).
- 1.2 Recycling credits are paid to parties that remove items from the waste stream for recycling that would otherwise have been sent to landfill at the Authority's expense. The value of the credit recognises the saving to the Authority made by this recycling activity. The major beneficiary of recycling credits has historically been the constituent Boroughs with a few far smaller claims paid to third parties.
- 1.3 A new system of levying each Borough in proportion to the waste they have delivered to the Authority for disposal was introduced in April 2006. This has the effect of negating any savings made by the Authority from independent Borough recycling activity as it is now the Borough that makes savings by delivering less waste for disposal, and where the Authority contracts with a reprocessor our costs are added to the levy. However, as the change to a tonnage-based levy is being phased in this year and next, the Authority, has agreed to make voluntary payments in place of recycling credits on a reducing scale for waste recycled this year and next. The Authority retains the power to make payments to third parties to support recycling activity.
- 1.4 The Government recognises the benefits offered by third party recycling activities and expects the Authority to be predisposed to make such payments and has introduced a new scheme through Section 49 of the Clean Neighbourhoods and Environment Act 2005 (CNEA 2005) with new guidance to encourage this. The Authority's existing recycling credits scheme can continue to apply to wastes collected before 31 March 2007.
- 1.5 This report advises Members of the impact of the new recycling credits regime and reviews the current scheme in the light of new legislation and guidance. This report is presented to Members at this time to allow time for the Authority to prepare and set an appropriate budget for 2007-08.

2.0 PAYMENT OF RECYCLING AND RE-USE CREDITS

- 2.1 The Authority has previously paid recycling credits at a rate that reflects the Authority's avoided cost of disposal. That is the saving that the Authority made in disposal costs as a consequence of the activity of the Borough or third party to recycle the waste. From 01 April 2006, the Authority no longer has the duty to pay Boroughs recycling credits but retains the power to make payments to third parties. The Government expects the Authority to be predisposed to pay claims from third parties. If an application for third party credits is refused the Authority is expected to provide reasons for the refusal.
- 2.2 The previous statutory scheme applied only to wastes that were recycled or composted but the Government's new guidance is that re-use credits should now be paid too.
- 2.3 Members should note that whilst the Authority has previously paid a "re-use credit" in special circumstances (e.g. to Restore Community Projects to support the furniture re-use scheme) this has the potential to be a very problematic area. The Government suggests that the sale of second-hand books or clothes, and the use of returnable or refillable bottles will not be eligible for credit payments and that goods donated to charity shops are not classified as waste at the point of donation, so charity shops will not be eligible to receive recycling credits on goods donated to their shops. Charity shops will however be eligible for recycling credits for items that cannot be sold and are then recycled or exported for re-use. Both the Environment Agency and community waste sector have produced guidance notes on re-use that contain advice for Authorities and third parties, but difficult uncertain instances of re-use in particular will inevitably arise and judgments will have to be formed on whether the re-use activity proposed is genuinely reducing the Authority's waste stream.

3.0 AUDITING CLAIMS FOR RECYCLING CREDITS

- 3.1 Recycling credits are payable to the person collecting the waste for recycling or re-use. The Authority should be satisfied that that the waste is being recycled or re-used and not simply collected for disposal before a credit is paid.

- 3.2 For the Authority to be able to follow the new Government guidance it should set up registers of “approved recyclers” and of third parties that are wishing to claim recycling credits. Officers will check the waste types and quantities that these organisations can manage. Additionally “duty of care” checks should be conducted to ensure that the claimant is compliant with waste management regulations. The Authority should only accept claims for recycling credits from organisations that have been previously checked and registered.
- 3.3 DEFRA recommends that applicants for recycling credits follow the “Measure your Treasure” guidance issued by the Community Recycling Network. This guidance recommends weighing waste where possible but also describes methods of estimating the quantities of waste recycled, re-used or composted where a weighbridge is not available. Officers should agree in advance of any service for which a third party intends to claim how the amounts of waste collected are to be measured to ensure that the methods employed are appropriate and commensurate with the scale of the operation and the size of any claim that may arise.
- 3.4 These registers should be established during 2006-07 to reduce the administrative burden and allow time to introduce appropriate systems and carry out the necessary checks before a claim for credits is made
- 3.5 An annual report of recycling credit claims will be submitted to the Authority for approval in advance of any payments being made.
- 3.6 The extra work that is created by this new regime will take up additional officer time. In the short term this workload will be resourced from the existing workforce but eventually additional staff may be required to discharge this responsibility and other similar functions that are anticipated in the future.

4.0 CALCULATION OF THE VALUE OF RECYCLING CREDITS

- 4.1 Until 31 March 2007 the system of calculating the value of credits is unchanged from that used in previous years. From 01 April 2007 the value of the recycling credit is to be calculated as the average amount of expenditure the Authority would have incurred in disposing of the waste at 31 March 2006 and increasing that figure by 3% on 01 April 2007 with subsequent increases of 3% per annum of the compounded figure on 01 April every year.

- 4.2 The Authority's administration costs of working with potential claimants, registering, auditing and processing claims for recycling credit should be deducted from the value of any credit paid. This value should be calculated to cover the cost of administering the system and processing applicants claims. Initially it is proposed that this administration charge should be £500. This charge would also introduce a "*de minimis*" threshold that would effectively prevent very small claims. Smaller claimants should be encouraged to apply to the Authority through an "umbrella organisation" that can ensure that applications are supported by all of the required evidence before submission to the Authority for approval. This would have the benefit of reducing the administrative burden on the Authority. The rate of the administration charge should be reviewed annually to ensure it is reasonable and reflects the cost to the Authority of managing the scheme.

5.0 EFFECT OF THE CHANGES TO THE RECYCLING CREDIT SCHEME

- 5.1 The new recycling credit guidance could impact upon the Authority's budget provision for future years. The following paragraphs analyse the possible effects.
- 5.2 Annual increase in the recycling credit rate.

Third party recycling credits under the new Regulations will be payable at a lower rate per tonne because the Regulations require the Authority to inflate the recycling credit rate by 3% compounded per annum regardless of the actual rate of inflation, but not to apply the larger adjustments related to landfill tax increases. The Government intends that this inflation increase will be higher than the base rate of inflation and has indicated that this figure will be reviewed if inflation is found to be in excess of the 3% figure for an extended period. The effect of increasing the value of the recycling credit by 3% per annum will be to increase the value of recycling credits at a rate that is greater than the rate of inflation. In a few years this rate will be significantly different to the base rate of the cost of disposal in 2005/06. Under the new regime the £3/tonne annual increases in landfill tax will not affect the value of recycling credits and so the net rate of recycling credit is expected to be less than the full avoided cost of waste disposal as calculated under the old regime.

5.3 Changes to the levy system.

The Authority's change to a tonnage based levy is complemented by this new guidance. The effect of the change to the levy system is to remove the requirement for the Authority to pay recycling credit to the constituent Boroughs but to retain the power (rather than duty to pay credits to third parties). Members are reminded that the Authority has already agreed to pay a reduced credit to Boroughs during the transition phase to the tonnage based levy.

5.4 Third party recycling claims

The Authority has historically paid recycling credits to third parties at the same rate as paid to the Boroughs but the number of organisations claiming has been low. Under the new regime the rate payable to third parties after 01 April 2007 will be higher than paid to the Boroughs during the transition phase to the tonnage based levy.

It is anticipated that the number of claims from third parties is likely to increase as the result of publicity and increasing awareness of the scheme. Officers will need to estimate this increase and make budget provision. This process will be assisted by registering applicants in advance and seeking estimates of the tonnage of recyclables that they are expecting to collect

6.0 RECOMMENDATIONS AND PROPOSED AUTHORITY POLICY

6.1 Payment of credits for waste that is diverted from landfill for recycling, composting or re-use is consistent with the draft North London Joint Municipal Waste Strategy

6.2 The Authority's policy on paying third party recycling credits should remain unchanged until 31 March 2007 at which point the new policy should be applied. This policy should apply to wastes collected for recycling, re-use or composting from 01 April 2007.

6.3 The Authority is recommended to pay third party re-use and recycling credits subject to the following conditions;

6.3.1 Only household waste including waste collected from schools and colleges that is recycled, composted or re-used is eligible for a credit.

- 6.3.2 All waste must be collected within the area served by the North London Waste Authority and its constituent borough councils.
 - 6.3.3 The collection of waste for recycling does not conflict with existing Borough collection schemes and is consistent with the North London Joint Municipal Waste Strategy.
 - 6.3.4 The Authority or the constituent borough councils do not already pay for the waste to be collected or recycled.
 - 6.3.5 All claimants and reprocessors that will collect and recycle waste must be approved and registered by the Authority before services commence for which a claim is to be made.
 - 6.3.6 Claims are to be made for waste collected between 01 April and 31 March and all claims are to be submitted to the Authority by 30 June immediately following the period to which claims relate.
 - 6.3.7 The waste collector and subsequent holders of the waste must be fully compliant with the waste duty of care and other relevant waste management regulations and evidence to support this compliance must be made available to the Authority.
 - 6.3.8 The Authority will deduct a reasonable administration cost from the value of any credit paid. This cost will be determined by the Authority as a reasonable estimate of the cost of administering the payment scheme. Where possible this charge will be published in advance.
 - 6.3.9 All claims are to be submitted in writing to the Authority and must be supported by sufficient evidence to allow the Authority and the constituent borough councils to include the waste in the calculation of Best Value Performance Indicators and to satisfy all our external auditors.
- 6.4 The Authority should be predisposed to pay recycling credits and should assist potential claimants in making a claim. The Authority should produce a guidance note and should encourage potential claimants to read the guidance published by the Environment Agency and the Community Recycling Network before making a claim. Any rejected claims should be justified to the applicant in writing.
 - 6.5 Members should note that the statutory guidance from DEFRA recommends accepting claims for credit relating to tonnages of waste that are estimated using the Community Recycling Network “Measure your treasure” guidance rather than measured using a calibrated weighbridge.

- 6.6 A report to the Authority showing the details of claimants, the waste collected, the amounts claimed and the values paid will be produced annually. This report will ask Members for approval to pay credits before payment is made.

7.0 COMMENTS OF THE LEGAL ADVISER

- 7.1 The Legal Advisor has reviewed this report and all comments are incorporated within.

8.0 COMMENTS OF THE FINANCE OFFICER

- 8.1 Although the Authority's duty to pay recycling credits to its constituent boroughs was removed on 1 April 2006 the Authority has previously decided to continue to pay recycling credits to its constituent boroughs on a discretionary but reducing scale in 2006/07 (two-thirds value) and 2007/08 (one-third value) to mirror the transitional arrangements of the move to a tonnage based levy. The new third party recycling credit scheme does not therefore impact on this arrangement, i.e. the 2007/08 recycling credit value (before discounting) of the local scheme for boroughs can continue to be based upon the highest cost of disposal in the Authority's area.
- 8.2 The recycling credit value paid to third parties under the current scheme is also based upon the highest cost of disposal in the Authority's area. In 2006/07 this value is currently estimated to be £65.53 per tonne.
- 8.3 As a guide (details of the calculation need to be clarified) the new recycling credit payment value in 2007/08 is estimated to be in the region of £49 per tonne. This compares with an estimated value of £70 per tonne based upon the current method of calculation.
- 8.4 In 2004/05, the last year for which there are audited recycling credit claims, the Authority paid third party credits of £18,666.57. Although the level of third party recycling credits is currently relatively low this may change with the expansion of the scheme to include the payment of re-use credits. The scale of the increase is not yet quantifiable, however, subject to agreement of the recommendations, it will be necessary to include an allowance in the 2007/08 budget forecast to be reported to the next meeting of the Authority.

Local Government Act 1972 – Access to information

Documents used: DEFRA “Guidance on the Recycling Credit Scheme.”
Community Recycling Network “Measure your treasure”
guidelines.

Contact Officers: Jon Clark, Principal Policy and Projects Officer
Andrew Lappage, Head of Waste Strategy & Contracts
North London Waste Authority
Unit 169, Block 1B
Lee Valley Technopark, Ashley Road
N17 9LN

Tel: 020 8489 5730
Fax: 020 8365 0254

E-mail: post@nlwa.gov.uk

Report Ends