

Waste VFM Report on Merseyside Councils

Wirral Council Audit - 2020-21

June 2022



Executive Summary

Across the four Merseyside councils we audit, the average recycling rate is 13.53% below the national average (in 2020-21 FY) of 43.1%. Significant improvements are required to ensure a trajectory that can match incoming legislation, which will mandate a target to recycle 65% of municipal waste by 2035.

As seen across the country, the Covid pandemic has led to increased waste volumes which has inevitably led to increased costs across all Merseyside councils for the provision of waste services. Costs are likely to continue to increase in the future as both the regulatory environment tightens requirements and broader inflationary pressures impact.

Tackling this dual challenge will require effective partnership working between collection authorities and the disposal authority. Yet our review identified weaknesses with the partnership governance arrangements that were in place during 2020-21. It is clear that some issues have persisted for a significant period of time, given that a Local Partnerships report identified similar issues in 2016. However, since the year ended, there have been a number of positive developments. A new Terms of Reference for a Liverpool City Region Strategic Waste Management Partnership was agreed in June 2021 and a revision to the Terms of Reference in January 2022 formally introduced Mersey Waste Disposal Authority into the strategic partnership – this is a welcome initiative and will help to address a number of the reporting and governance concerns which we established during the fieldwork for this assignment.

We note that, driven by the expectation of greater regulation and the wider move to Net Zero commitments by 2050, coordination has recently increased across key organisations in the region. The awareness of challenges pertaining to governance of the levy mechanism are now widely accepted. The challenge is to utilise improvements in coordination to drive through the necessary changes in a timely manner.

Taking into account the recent developments, we have identified three recommendations that will help to further improve the degree of coordination and quality of waste management services across the region. Realising these actions would deliver a fit for purpose governance model which can aide the clear communication to political leadership of the long term benefits to the citizens of the region of these changes.

Detailed findings

Local Partnerships' Strategic Review of Waste Management (2016)

In 2016, Local Partnerships² were commissioned to perform a Strategic Review of Waste Management across the Liverpool City Region. Key findings of this report were that:

- MWDA run an efficient waste disposal service (limited savings potential)
- Significant economies could be gained from 'joining up' the entire waste management system

In particular, there was a recommendation to consider the formation of a **Joint Waste Authority**, which would become part of the Liverpool City Region Combined Authority using a governance model similar to that already in place for Mersey Travel. Implementation of common collection practices and policies is noted at the first step for future innovation, including asset sharing and optimisation of vehicle rounds.

We note that the Liverpool City Region Strategic Waste Management Partnership (see later) Terms of Reference contain a commitment to review the recommendations contained in this report.

The Merseyside Councils and MWDA should work closely to review the recommendations of the Local Partnerships' Strategic Review of Waste Management (2016).

Recycling Rates across the Region

The table opposite describes the recycling rates across the Liverpool City Region, taken from *WasteDataFlow*.

It can be seen that across the four councils in scope, the average recycling rate is **13.53% below the national average (in 2020-21 FY)**.

We understand that the MWDA runs a region-wide campaign 'Recycle-Right' to drive recycling, which includes education officers, community funds, and behavioural change campaigns).

² Local Partnerships LLP is a joint venture between HM Treasury, the Local Government Association and Welsh Government focused on supporting efficiency at the council and combined authority level.

Districts / recycling %	17-18	18-19	19-20	20-21
Sefton	29.00%	35.00%	33.70%	34.80%
Knowsley	24.60%	30.20%	30.70%	28.70%
Wirral	29.70%	32.50%	33.30%	31.90%
Liverpool	18.80%	23.60%	23.60%	23.50%
St Helens	30.70%	35.40%	37.40%	31.40%
Halton	43.50%	32.50%	37.50%	31.50%
Merseyside average	26.60%	31.30%	31.80%	30.10%
Councils in scope average	30.68%	31.00%	32.95%	29.58%
National average	37.50%	42.80%	43.50%	43.10%
Merseyside vs National difference	-10.90%	-11.50%	-11.70%	-13.00%
Councils in scope vs national difference	-6.83%	11.80%	-10.55%	-13.53%

Historically there has been an EU target for the UK to recycle at least 50% of household waste by 2020. More recently, The government's Circular Economy Package (July 2020) includes a target to recycle 65% of municipal waste by 2035. The legalisation to implement this has not been released by Defra.

In addition to the clear benefits of increasing recycling rates, an increase in recycling rates could reduce load on the Energy from Waste facility, permitting the contractor to sell additional capacity which would in turn permit the councils to benefit, via a gain share mechanism, in the increased revenue flowing to the MRWA.

The Councils should consider its recycling rates in line with the national average and in the context of incoming national targets (65% by 2035). They should put in place plans for improving efficiency and effectiveness in this area, working with the MWDA.

Detailed findings

The Merseyside Waste Disposal Authority (MWDA) is responsible for waste disposal of waste collected by the five unitary authorities within the Ceremonial County of Merseyside:

- 1) Knowsley Metropolitan Borough Council
- 2) Liverpool City Council
- 3) Sefton Council
- 4) St Helens Council
- 5) Wirral Council

It also manages waste disposal via a separately agreed partnership with **Halton Council**.

Mission Statement and Service Delivery Plan 2020/21

The MWDA's mission statement 2020/21 is : "To ensure that we reduce the impact of our actions on climate change and improve the sustainable management of waste and resources".

The Service Delivery Plan 2020/21 follows the Corporate Plan and is divided into four sections :

1. Improve the sustainable management of waste and resources
2. We will deliver effective waste services
3. Co-operate to improve working arrangements
4. Measure and report on climate change impacts and sustainability improvements

Waste disposal arrangements

Each of the Merseyside Councils deliver their municipal waste to nominated locations as which point the waste becomes the responsibility of the MWDA.

MWDA disposes of waste via two main contracts:

1. **Waste management and recycling contract** (WMRC) that provides management of the Household Waste Recycling Centres (HWRCs), Materials Recycling Facilities (MRFs) and transfer stations and any subsequent haulage of the waste to treatment or disposal. This contract is with Veolia and expires in 2029; and
2. The disposal of the **residual waste is via energy from waste (EfW) and landfill of untreatable wastes**. This contract is with Merseyside Energy Recovery Limited (MERL)¹ and expires in 2044.

We understand that tonnages collected by the Merseyside Councils were higher by around 70,000 tonnes as a result of **Covid-19** relating to behavioural changes (i.e. commercial waste becoming residential waste). This has meant that the MWDA has reached its maximum capacity within the MERL contract and is now required to find alternative outlets for residual waste, including direct to landfill.

MWDA should work with its board members (including any required consultations with the respective Merseyside Councils) to take decisions as to the long term treatment of rising waste tonnages, which cannot be treated within existing contracts. This includes consideration of the course of action on the impending expiry of the waste management and recycling contract in 2029.

Detailed findings

Internal Governance

MWDA is a local government body consisting of nine elected Members representing the five Merseyside Councils. The board of nine elected members include three from Liverpool City Council, two from Sefton MBC, two from Wirral Council and one each from Knowsley MBC and St Helens MBC. Halton Council has observer status. Members meet to consider high level matters such as policy, strategy and budget in relation to waste treatment/disposal. However, their decision making ability is limited and many decisions will need to be ratified separately by all five Merseyside Councils.

MWDA is responsible for approving the annual budget and the determination of the levy. Each Merseyside Council nominates its Member(s) to act on the board for varied periods of time. The Member is not necessarily the portfolio holder for waste. Those sitting on the board are not formally required to report back to their council but are authorised to answer questions in relation to waste disposal at council meetings.

It would be beneficial for the Members on the board of the MWDA to include the portfolio holder for waste to ensure that a high quality discussion is enabled during strategic discussions.

It could also be beneficial for these Members to have a formal requirement to report back to Members at their own council meetings on waste disposal matters – ensuring a feedback loop is enabled between councils and the MWDA.

External Governance (interaction with the Merseyside Councils)

Chief Executives Group

The Chief Executives Group is comprised of the Chief Executive from each of the Merseyside Councils. On an ad hoc basis, and when they discuss matters in relation to waste management and disposal, the Chief Executive of MWDA (Carl Beer) is requested to report to this group regarding disposal costs.

Members of the Merseyside Councils

Although there is no formal route for the MWDA to report directly to Members, we understand that, as an exception, the Chief Executive of MWDA was invited to attend a Leaders' meeting on 9 December 2021.

It would be beneficial for there to be a regular and formal briefing of the Chief Executives Group and/or Members by the MWDA on waste disposal matters (including provision of key performance indicators in the form of a regularly tabled dashboard so that trends can be considered).

It would also be useful to provide Members with the performance context alongside the cost of waste management, e.g. KPIs which include benchmarking with national average / targets in relation to recycling rates / cost of waste management.

Detailed findings

Liverpool City Region Strategic Waste Management Partnership (2021)

The Liverpool City Region Strategic Waste Management Partnership's purpose is to collectively address regional waste management issues and provide a single voice on waste management affairs. Areas of particular consideration include implications of new waste management legislation, housing growth, the environment and climate emergency and the financial pressures on regional waste management.

The partnership agreed Terms of Reference in June 2021, which have been signed up to by the Merseyside Councils plus Halton Borough Council and the MWDA. The partnership will meet quarterly. A revision to the Terms of Reference in January 2022 has introduced the MWDA into the partnership – this is a welcome initiative and will address a number of the reporting and governance concerns which we established during the fieldwork for this assignment (in Nov 2021).

A key area highlighted for “increasingly urgent” action is an update to the current levy mechanism. The Terms of Reference contain a commitment to review the recommendations contained in the Local Partnerships' Strategic Review of Waste Management (2016).

Leaders and Mayors will be provided with quarterly updates from the Liverpool City Region Strategic Waste Management Partnership. In the October 2021 briefing it is noted that there will be a £9m cost increase across the five councils in 2022/23 due to increases in household waste collected as a result of Covid-19 related shifts in behaviour.

The MWDA, Merseyside Councils and Halton Council should continue to work together to review and conclude upon the optimal governance model to ensure transparency and collaboration and to drive economy, efficiency and effectiveness for waste management services.

Memorandum of Understanding

There is a Memorandum of Understanding (MoU) (2014 - 2014) which governs the arrangement between the MWDA and the Merseyside Councils (i.e. excluding Halton Council). This MoU refers to the Joint Recycling and Waste Management Strategy (JRWMS) and commits all partners to review the JRWMS every five years.

Each partner is committed to produce and maintain an action plan which sets out interim targets that when considered collectively seek to achieve the shared JRWMS aims and objectives (e.g. 50% recycling by 2020). These targets should be reviewed in line with statutory national requirements as part of the 5 yearly review. We understand the latest JRWMS was agreed in 2011.

Each partner is committed to providing information to the MWDA in relation to their performance against their own JRWMS action plan, feeding into an annual performance report and letter of assurance to the September MWDA authority meeting.

We understand the MWDA does not receive an annual performance report and letter of assurance from any of the Merseyside Councils in FY 2020/21.

The MWDA should ensure that each Merseyside Council provides an annual performance report and letter of assurance to the September MWDA authority meeting as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).

Under the MoU, there is a requirement for the MWDA to report on its own performance to all Merseyside Councils' scrutiny panels (or equivalent). We understand this does not currently take place.

The MWDA should provide a report on its own performance at each of the Merseyside Councils' scrutiny panels (or equivalent), as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).

Detailed findings

Waste disposal levy (1 of 2)

The apportionment of the costs of waste disposal for the Merseyside Councils (not Halton Council) is dictated by a levy mechanism. This mechanism takes the 'per tonne' cost of waste disposal by MWDA for all Merseyside Councils and allocates this to each council based on the tonnage they have delivered. The mechanism does not distinguish between collection of recyclate vs residual tonnage and therefore does not incentivise recycling. The levy also includes calculations based on other variables – covered briefly below.

To incentivise recycling amongst the Merseyside Councils, the levy could be updated to distinguish between collection of recyclate vs residual tonnage.

We recognise that changes to the mechanism will be challenging, given governance arrangements covered earlier in this report. We suggest an approach that, based on our experience of other multiple council contracts provides the correct balance of incentive and complexity:

The payment mechanism under the MERL includes three bands for residual waste disposal:

- Band 1 - £91.81/tonne
- Band 2 - £5.00/tonne
- Band 3 - £70.00/tonne

The above structure provides an incentive for waste levels not to reach Band 3. Despite this, the current structure does not make an individual Merseyside Council accountable for tonnage that leads to a move between bands (and most significantly between Band 2 and Band 3) as banding is based on the aggregate tonnage from *all* Merseyside Councils.

To incentivise reduction in residual waste tonnages amongst the Merseyside Councils, the levy could be updated to make individual Councils accountable for delivering their proportion of the volume of residual waste (e.g. on a pro rata basis).

These proportions should be based not on the annual forecasts, rather on the Councils agreement at the inception of the contract (ie the original forecast that determined the bandings agreed in the payment mechanism).

Hence, following this change, banding is thus enforced per council by the MWDA and any excess payments from that council (due to their proportion of tonnage leading to a move between bands) are paid into a separated account administered by MWDA. Only if, in aggregate across all Councils, bandings are breached would a payment be made to the contractor (as per terms of the contract).

At the end of a period, cash within the excess payment account can be shared in a pre-determined manner by the partnership (examples we have seen include excess cash returned to the Council that suffered or used for wider benefits of the partnership eg educational schemes, capital improvements). This approach is less administratively cumbersome than alternatives and the decision and utilisation of the cash does not necessarily need to be taken annually.

Such a change to the levy does ensure that each Council has a direct financial incentive to minimise their residual waste (a key objective of the change to the levy) and minimises perverse incentives (such as knowledge that other Councils in the partnership are performing well and their improved relative performance can be utilised to offset the offending Council's costs).

Detailed findings

Waste disposal levy (2 of 2)

In addition, the levy includes a **population based charge**, which allocates other costs (e.g. HWRCs, closed landfill sites, admin) across the Merseyside Councils based on their population.

The levy also **includes recycling credits**, however, this has been referred to as a ‘circular cashflow’ as Merseyside Councils receive the recycling credits income from the MWDA but they then pay for it via the levy (i.e. zero net impact).

There is a **two year lag** between the levy payment (based on forecast tonnage) and an actual tonnage reconciliation. The increased cost of disposal via the MERL contract due to higher municipal residual waste tonnages due to Covid has been managed using MWDA’s reserves. The Merseyside Councils will see the impact of this cost in the future.

Although the levy charge is managed by the MWDA, it does not have authority to make amendments to the levy mechanism.

Following consideration of the levy mechanism, the Council should work closely with all Merseyside Councils in order to collectively ratify any proposed amendments.

We note that the MWDA has prepared a board report in 2021, which provides information on the levy mechanism and how charges to councils may be different if waste is recognised as having differential values and costs.

Alternative charging methods are proposed:

1. Residual Tonnes Allocation (charge based on residual tonnage only)
2. Good Waste Bad Waste Levy (charge based on residual vs recycle tonnage)
3. Good Waste Bad Waste & Incentive (charge based on residual vs recycle tonnage, with weighting to disincentivise residual tonnage)
4. Population only allocation (charge based on population only)

There is also a suggestion of a carbon impact based model to disincentivise carbon intensive activities.

The report notes that for each option there will be ‘winners’ and ‘losers’. The report shows which option is financially optimal for each Merseyside Council (see extract below).

Board members were asked to “instigate discussion at their host authority to see if a new consensus on the Levy can be reached”. Note: it was not possible to allocate a financially optimum outcome for the “Good Waste Bad Waste” levy and incentive options as this would depend on the weighting decisions taken within these options, which were not defined in the paper.

Financial optimum outcome for each constituent Council (estimated) 2021-22 figures

	Original Levy 2021/22	Residual Tonnes Allocation	Good Waste Bad Waste Levy	Good Waste Bad Waste & Incentive	Population only allocation
Knowsley					X
Liverpool					X
St Helens	X				
Sefton		X			
Wirral		X			

Improvement recommendation



Improving partnership governance arrangements

Recommendation

To further improve the partnership governance arrangements in place across the Merseyside region for waste, it is recommended that:

1. The Merseyside Councils and MWDA should work closely to review the recommendations of the Local Partnerships' Strategic Review of Waste Management (2016).
2. The MWDA, Merseyside Councils and Halton Council should continue to work together to review and conclude upon the optimal governance model to ensure transparency and collaboration and to drive economy, efficiency and effectiveness for waste management services.
3. The Members on the Board of the MWDA include the portfolio holder for waste to ensure that a high quality discussion is enabled during strategic discussions. It could also be beneficial for these Members to have a formal requirement to report back to Members at their own council meetings on waste disposal matters – ensuring a feedback loop is enabled between councils and the MWDA.
4. Following consideration of the levy mechanism, the Council should work closely with all Merseyside Councils in order to collectively ratify any proposed amendments.

Why/impact

Failure to address these improvement recommendations increase the risk that Merseyside authorities are unable to:

- achieve incoming legislation, which will mandate a target to recycle 65% of municipal waste by 2035.
- achieve best value by effectively managing rising costs of collection and disposal of waste.

Auditor judgement

Partnership governance arrangements for waste services in Merseyside need to be improved to ensure that a coordinated approach across the region is taken to tackle the challenges of low recycling rates and rising costs.

Summary findings

We found weaknesses with the partnership governance arrangements that were in place during 2020-21. It is clear that some issues have persisted for a significant period of time, given that a Local Partnerships report identified similar issues in 2016. However, since the year ended, there have been a number of positive developments.

Management comment

The established Liverpool City region (LCR) strategic waste partnership is developing the region's 'Zero Waste Strategy' and as part of this make recommendations for future regional waste management governance. Clear reporting lines have been created between the region's Leaders and Mayors, Chief Executive's Group, the Strategic Waste Management Partnership and district Portfolio Holders. The Strategic Waste management Partnership are also working closely with the LCR finance director's group to review the waste levy mechanism.



Improvement recommendation



Improving performance management and reporting arrangements

Recommendation

To improve performance management and reporting arrangements in place across the Merseyside region for waste, it is recommended that:

1. Regular and formal briefings are provided to the Chief Executives Group and/or Members by the MWDA on waste disposal matters (including provision of key performance indicators in the form of a regularly tabled dashboard so that trends can be considered).
2. MWDA should ensure that each Merseyside Council provides an annual performance report and letter of assurance to the September MWDA authority meeting as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).
3. The MWDA should provide a report on its own performance at each of the Merseyside Councils' scrutiny panels (or equivalent), as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).
4. Members are provided with the performance context alongside the cost of waste management, e.g. KPIs which include benchmarking with national average / targets in relation to recycling rates / cost of waste management.

Why/impact

Failure to address these improvement recommendations increase the risk that Merseyside authorities are unable to identify and tackle areas where waste performance (non-financial and financial) needs to improve.

Auditor judgement

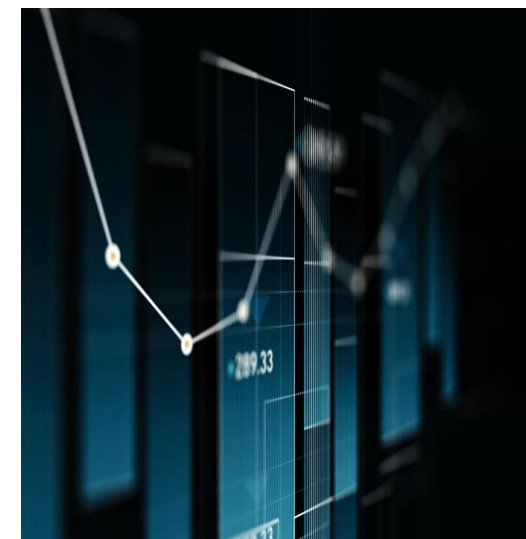
Performance management and reporting arrangements could be enhanced to allow for better review and scrutiny of waste collection and disposal performance.

Summary findings

We found weaknesses within performance management arrangements in place across the region with regards to waste. There are a number of reporting provisions within the current Memorandum of Understanding (MoU) (2014 - 2041) which governs the arrangement between the MWDA and the Merseyside Councils, which are not being met.

Management comment

The LCR Strategic Waste Management Partnership are developing a framework of performance indicators as part of the region's Zero Waste Management Strategy to measure impact and progress. The framework will be used by each district authority and the waste disposal authority to provide annual performance reports on recycling, reuse and waste reduction. The reports will include benchmarking against national performance trends.



Improvement recommendation



Improving economy, efficiency and effectiveness

Recommendation

To improve the economy, efficiency and effectiveness of waste services across the Merseyside region, it is recommended that:

1. The Councils should consider its recycling rates in line with the national average and in the context of incoming national targets (65% by 2035). They should put in place plans for improving efficiency and effectiveness in this area, working with the MWDA.
2. MWDA should work with its board members (including any required consultations with the respective Merseyside Councils) to take decisions as to the long term treatment of rising waste tonnages, which cannot be treated within existing contracts. This includes consideration of the course of action on the impending expiry of the waste management and recycling contract in 2029.
3. The levy could be updated to distinguish between collection of recyclate vs residual tonnage to incentivise recycling amongst the Merseyside Councils.
4. The levy could be updated to make the Merseyside Councils accountable for delivering waste at Band 3 levels (e.g. on a pro rata basis) to incentivise reduction in residual waste tonnages amongst the Merseyside Councils. We have seen on other multi-authority projects that if the 'levy' does not reflect the payment mechanism with the disposal contractor, there is a risk that a participant council will not be held to the agreements and forecasts that informed the payment mechanism with the disposal contractor



Why/impact

Failure to address these improvement recommendations increase the risk that Merseyside authorities are unable to:

- achieve incoming legislation, which will mandate a target to recycle 65% of municipal waste by 2035.
- achieve best value by effectively managing rising costs of collection and disposal of waste.

Auditor judgement

Merseyside authorities need to work effectively together to improve waste outcomes in the face of rising waste tonnages and incoming legislation that will require a significant improvement in recycling rates.

Summary findings

Across the four Merseyside councils we audit, the average recycling rate is 13.53% below the national average (in 2020-21 FY) of 43.1%. As seen across the country, the Covid pandemic has led to increased waste volumes which has inevitably led to increased costs across all Merseyside councils for the provision of waste services.

Management comment

The LCR's Zero Waste Strategy will set out the steps for transforming recycling performance regionally and within each member district authority, with a major focus on driving resident behaviour change. The Strategic Waste Management Partnership are also working with senior finance colleagues to overhaul and incentivise the waste levy, undertaking a review of other region's financial arrangements as part of this.