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Y Gweinidog dros yr Amgylchedd, Cynaliadwyedd a Thai  
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Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Ein cyf/Our ref: LF/JD/0047/10

Angela Burns AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
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9 June 2010

*Dee Angela,*

Thank you for your letter dated 3<sup>rd</sup> June 2010 regarding the Proposed Waste (Wales) Measure. I address the points that you raise in that letter below.

Table 1 of the Explanatory Memorandum – Single Use Carrier Bags

I attach an updated version of Table 1. This version amends the estimates for the Welsh Assembly Government's administration costs for the Voluntary Option. The updated Table, which I have included below, proposes £10,000 for such annual costs. This would cover the costs of monitoring the implementation of any voluntary agreement. It is important to emphasise that as a result of introducing the charge on Single Use Carrier Bags, all retailers will need to keep a record of the gross and the net receipts, and the use to which the net receipts have been put. Monitoring information will therefore be readily available. There are no monitoring or enforcement costs for local authorities under the voluntary option.

**Table 1: Summary Cost Table – 1st Year Costs**

£ '000s	Do Nothing	Accredited Scheme	Duty Option	Voluntary Option
<b>Compliance/Administrations Costs for Businesses/Projects</b>				
Retailer cost	-	650 - 880	505	0 – 505
Charity/Project Cost	-	-	150 - 385	0 – 385
<b>Public Sector Administration/Other Costs</b>				
WAG administration	-	40	45	10
WAG Communications	-	80	40	-
Monitoring/Enforcement by Local Authorities	-	175	45	-
<b>Total</b>	-	<b>945 - 1,145</b>	<b>740 – 975</b>	<b>10 – 900</b>
Net Present Value (£m)	-	10.0 – 12.8	8.3 – 11.1	0.1 – 10.7

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The Explanatory Memorandum will also be amended to emphasise that the Assembly Government envisages a complaints-led process in relation to the enforcement of any duties imposed by the proposed Measure in relation to Single Use Carrier Bags. The Explanatory Memorandum will be updated following the completion of Stage 2 of the scrutiny process.

#### Table 4 of the Explanatory Memorandum – Information on Residual Waste Management

In your letter, you queried why the changes in the cost of residual waste management for avoided disposal as landfill and avoided disposal as incineration, as set out in Table 4, are so similar. Table 4 sets out, amongst other things, the change in cost of residual waste management as a result of achieving a 70% recycling rate, relative to a 52% baseline. In relation to the private costs metric, where all taxes and subsidies are taken into account, the avoided disposal cost as landfill is -£154.5m, of which -£109.9m is avoided landfill tax payments and -£44.7m is avoided gate fee payments.

The avoided disposal cost as incineration is -£151.6m, which is the estimated savings from avoided gate fees. This amount is very similar to the avoided disposal cost for landfill. The reason for this is that the gate fees for incineration are significantly higher than for landfill. Table 4 has assumed a gate fee for incineration of £90 per tonne. The latest study by WRAP on the cost of alternative waste treatment options (WRAP Gate Fees Report 2009) estimates a gate fee range of £68-141 for post-2000 incineration facilities (the only type in Wales) compared with a range of £8-42 for landfill gate fees.

Consequently, sending material to landfill is currently a cheaper method of residual waste management than incineration, even with the combined cost of landfill gate fees and landfill taxes. However, the planned escalation in the landfill tax will make landfill a more expensive residual waste treatment method in the longer term. This helps to explain why the changes in the cost of residual waste management for both landfill and incineration are broadly comparable for the period in question (2009/10 – 2024/25).

#### Recycling Targets

The Welsh Assembly Government's intention in establishing statutory recycling targets is to make the desirability of high recycling, from a financial and environmental perspective, clearer to local authorities. If they meet or surpass the targets in the proposed Measure, they are likely to make significant cost savings in terms of avoided landfill tax payments and landfill gate fees or avoided incineration gate fee payments. However, if they do not meet these targets, it is the Government's intention that local authorities should potentially be liable to financial penalties. The policy aim here is distinct from the rationale for the Landfill Allowance Scheme (LAS), where the aim in that instance is to reduce the amount of waste being sent to landfill. A local authority could meet its LAS targets but fail to recycle much of the waste that would otherwise have been landfilled, choosing to

incinerate it instead. The recycling targets make clearer the desirability of higher recycling rates.

The issue about additional landfill taxes is one of cost, rather than any potential sanctions or penalties. Local authorities make decisions about how their municipal waste is treated. There are costs whichever method they choose to pursue. If they choose to send more waste to landfill or incineration, they will be liable to the appropriate gate fees and additional landfill tax payments if the waste is sent to landfill. Conversely, whilst there might be higher collection costs associated with recycling, local authorities will be increasing their revenue streams through the sale of recyclate. Landfill taxes and gate fees for the appropriate residual waste treatment method should not be seen as financial penalties but rather fixed costs which local authorities should be taken into account in deciding the most appropriate method for managing their waste.

In terms of potential infraction fines linked to the recycling targets, the key relevant EU target is that 50% of waste from households should be recycled by 2020. The UK will not be infringed unless aggregate performance across the various administrations falls below 50%. Given where we are now in terms of recycling municipal waste, we do not anticipate being in a situation after 2020 where such infraction fines could apply to Wales.

#### Table 8 of the Explanatory Memorandum – Site Waste Management Plans

The Regulatory Impact Assessment for the proposed Measure sets out 2 options relating to the establishment of a fees and charges scheme for Site Waste Management Plans (SWMPs). Option 2, the 'simple' regime, would impose the smallest regulatory costs for the Assembly Government and the regulator. This particular option assumes that only projects over a threshold of £300,000 would need to complete a SWMP. Using the latest information about Building Control Notices, we have estimated that around 2,200 SWMPs would need to be completed annually under this approach. Option 3, the 'comprehensive' regime, would impose more costs. These can be attributed to the development of a more complex SWMP scheme which is tailored not only to those partaking in construction projects (as is the case for Option 2) but also those who design the projects and those who manage the waste resulting from the projects. Further detail is provided at paragraphs 8.4.40 – 8.4.49 of the Explanatory Memorandum. Furthermore, Option 3 has been modelled on the basis that all projects which require Building Control Notices (19,800 annually, according to the latest data) would need to complete a SWMP, not simply those above a particular financial threshold.

In your letter, you refer to costs set out in Table 8 of the Explanatory Memorandum. Table 8 refers to the first year costs of a SWMP regime. This table should be read alongside Table 9, which sets out the 'steady state', annual costs for the different options. You are correct in your assumption that the first year costs for Option 2 are, per plan, more expensive than Option 3. However, the 'steady state' costs for Option 3 are more expensive than for Option 2 - Table 9 suggests that the costs per SWMP would be approximately £52 compared with £170 for Option 3. The 'simple' SWMP regime will therefore be cheaper than the more comprehensive approach once the

initial set up costs have been addressed. Paragraphs 8.4.15 – 8.4.18 set out more detail on this matter.

As I noted in the Explanatory Memorandum, these are indicative costs and more detailed work is being undertaken on a Cost Benefit Analysis for the introduction of SWMPs. If a decision is made to introduce draft regulations on a fees and charges scheme using the powers in the proposed Measure, these regulations will be subject to consultation and will need to be accompanied by a Regulatory Impact Assessment.

#### Costs of Infrastructure in the Regulatory Impact Assessment

The cost of the infrastructure required to achieve a 70% recycling rate, relative to a 52% baseline, are included in the outline costs in Table 4 of the revised Regulatory Impact Assessment (RIA) for the waste target provisions. This table sets out the additional costs in terms of changes in kerbside collection costs, civic amenity site collection costs and bulky waste costs. These costs include any additional infrastructure, such as additional collection vehicles, which may be required to meet the proposed targets, and take account of both capital investment and revenue consequences.

The outline costs of a Site Waste Management Plan regime, including any related infrastructure such as IT systems, are set out in Tables 8 and 9 of the RIA. These outline costs reflect both the capital investment costs as well as the revenue consequences of any capital investments.

The RIA recognises that there may be additional infrastructure costs related to any landfill ban or restriction. Additional infrastructure costs may, for instance, arise as a result of increased collection systems to recycle waste which would otherwise be landfilled (as noted, Table 4 sets out the infrastructure costs for achieving higher recycling rates). The exact costs, both in terms of capital as well as revenue, would depend on the exact nature of any ban or restriction. They would also vary depending on the collection and processing used and the location of any waste to be treated. It is worth noting that there is already significant infrastructure capacity to recycle key waste materials at both a Wales and UK level. I am also aware that as the market for waste treatment matures, there is increasing investment by the private sector in merchant facilities.

Any proposed landfill ban or restriction will be accompanied by a detailed RIA which will consider, amongst other things, the infrastructure costs associated with any proposal.

#### Table 5 of the Explanatory Memorandum – References to Social Costs

You asked for clarification of the term 'social costs' and 'private costs' as used in Table 5 of the Explanatory Memorandum. The social cost/metric column in Table 5 demonstrates the costs and benefits to UK society as a whole when taxes and subsidies are excluded from the calculation. In this specific RIA, the most relevant tax or subsidy to consider is landfill tax. By sending less waste to landfill, Welsh local authorities will make a cost saving in the form of lower landfill tax payments.

However, this represents a cost to HM Revenue and Customs (HMRC) in the form of reduced landfill tax receipts. With no goods or services exchanges, this is simply a transfer payment. From the perspective of UK society as a whole, the landfill tax savings made by the local authorities are cancelled out by the loss of landfill tax receipts at HMRC.

However, the payment (or in this case avoidance) of landfill tax will have clear budgetary/affordability implications for Welsh local authorities. This is demonstrated in the private cost/metric column in which taxes and subsidies are included in the calculations. Therefore, the avoided landfill tax is included as a cost saving to the Welsh local authorities but the loss of revenue at HMRC isn't taken into account. This information supplements the explanation in paragraph 8.2.23 of the Explanatory Memorandum.

I hope that this letter addresses your outstanding questions on this proposed Measure.

Yours,

A handwritten signature in black ink, appearing to read 'Jane Davidson', written over a horizontal line.

**Jane Davidson AM**

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