

## Agenda Item:

**Report to:** Audit Committee

**Date:** 31 January 2006

**Report from:** Executive Director, Environment and Safety

**Title of report:** **DEFRA RECYCLING INITIATIVE AUDIT REPORT –  
MANAGEMENT RESPONSE**

**Purpose of report:** To set out the Management response to the Audit report on the DEFRA recycling initiative.

**Recommendations:** That the background to the problems with the initiative be noted.  
That the actions taken and planned to address the recommendations of the Audit Report be noted.

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## 1.0 Introduction

- 1.1 Because of concerns over the progress and escalating cost of the recycling project the Chief Auditor was asked in August 2005 to review the project implementation and confirm compliance with grant conditions, HBC procedures, obtaining best value and efficient use of resources.
- 1.2 The Chief Auditor has now published the report on the findings of the review and this report appears as a separate item on this agenda.
- 1.3 In providing the Management Response to that report I firstly take the opportunity of reminding Members of the background to the scheme and set out the history of it to date.

## 2.0 Background

- 2.1 The statutory National Waste Strategy for England and Wales was published in May 2000. It contained specific requirements for diverting waste from landfill in order to comply with the EU Landfill Directive and specific National Targets for recycling. These have been applied to local authorities and Specific targets have been set for each local authority. For Hastings these statutory targets, which are now Best Value Performance Indicators, were:

1998/1999	6%
2003/2004	12%
2005/2006	18%
2008/2009	22%

- 2.2 Approximately five years ago the Council introduced a 'black box' scheme for paper recycling covering 26,000 households. This added to our bring site collections for glass, plastic and cans and had served to improve our recycling performance to some extent. It was, however, generally accepted that the Council was still struggling to meet the 2003/2004 target of 12% and that we needed to look at other approaches to further improve our performance on recycling to meet the 2005/2006 target of 18%.
- 2.3 The Council adopted a strategy to improve recycling performance. In addition to separating paper through the black box scheme, house holders were to be asked to separate cards, mixed plastic and cans into sacks at source. The collection area for the scheme would be enlarged, requiring rescheduling of collections, additional vehicles and crews, and a site to accommodate a bag splitter, separator and baler.
- 2.4 The costs for implementing this strategy were substantial and therefore opportunities were explored for attracting additional funding through bids to the Department of Environment Food and Rural Affairs (DEFRA). Bids from the Council failed several times but then, in 2004, DEFRA announced a two year Waste Minimisation and Recycling Fund and invited further bids from local authorities. The Council again had difficulty securing the funding but following a scaling down of the bid and the intervention of the local MP the Council was awarded two grants worth a total of £600,000 in October 2004 on the condition that the money was spent by 31 March 2005.

- 2.5 These grants were intended to fund the purchase of the capital equipment, plant and vehicles required to enhance the recycling scheme and for a publicity and awareness raising campaign. They also provided some 'pump priming' for staff and crews during 2004/5 to launch the new scheme.
- 2.6 The timing constraints for utilising the grants meant that officers struggled to deliver all elements of the project within that original timescale. As a consequence a proportion of the grants were lost and other costs were incurred against the revenue budget. Externally audited accounts do however confirm that 90% of the grant was claimed and correctly spent.
- 2.7 The project sought to have a new recycling scheme in place and fully operational by April 2005. Key to the scheme was the establishment of a Materials Recycling Facility (MRF). It was originally intended that this would be installed in an existing building on a local site which is licensed as a waste transfer station. When operational procedures and processes were considered in detail however, it was concluded that this building would be unsuitable for health and safety and operational reasons.
- 2.8 The site proprietor subsequently undertook to construct a new building to house the MRF and it was expected that this would lead to a three month delay in the start of its operation. Because of this anticipated delay arrangements had to be made for temporary storage of recyclates. It was originally thought that these would be brought back to the MRF for processing once it was operational. In the event the builder contracted to construct the building went into liquidation and this led to an eight month delay rather than the three months originally anticipated.
- 2.9 As a consequence of this extended delay the MRF was unable to cope with the larger than anticipated stockpile in addition to the daily throughput. The stockpiled material had also degraded making it more difficult to process. The stored recyclate has therefore been sent for reprocessing elsewhere and we are no longer using temporary storage. The need to deal with this recyclate differently has led to a loss of income from it and to increased costs for transport to and storage at Rye Harbour then subsequent transport to the reprocessor. We have however retained the recycling credits for it.
- 2.10 The new MRF eventually opened in November 2005 and is now processing all recyclates collected within the Borough. The delays in opening the MRF raised concerns that the Council would not achieve the 18% average recycling target for the whole of 2005/6. Recycling rates are however now steadily improving and we have reached 19.4% for the third quarter, and if the current rate of improvement is sustained we could be at or exceeding the 18% annual average target by the end of the fourth quarter.
- 2.11 The Council is currently in the process of letting the contracts for refuse and recycling. Tenders were received at the end of December and we expect to be in a position to make a positive recommendation to Cabinet in February. The new contract will commence on 3 July 2006 but current arrangements for recycling are expected to continue until possibly February 2007 at which time we anticipate the successful contractor will introduce additional initiatives to further extend recycling to meet increased targets from 2008.

### **3.0 Audit Investigation**

- 3.1 The Audit report confirmed the concerns raised about the project management but also confirmed that some of the problems clearly arose as a result of the tight timescales resulting from the delay in approval of the grant by DEFRA.
- 3.2 The Audit report made a number of recommendations for action. Of these recommendations three were identified as high priority. These were:
- That the circumstances that have led to the increase in expenditure on the budget be reported to Cabinet and virement requested;
  - That Health and Safety activity and building risk assessments at the MRF are undertaken immediately; and,
  - That an early decision is reached on the disposal of materials in temporary storage.
- 3.3 A report is being presented to Cabinet at its meeting on 23 January requesting a supplementary estimate. Health and safety and buildings risk assessments have been undertaken and measures implemented to minimise risk. The material in temporary storage has now been sent for reprocessing elsewhere. Management processes have been reviewed, additional controls put in place and staffing changes have been made.
- 3.4 A complete review of the structure of the Waste Management team is currently underway to ensure it is 'fit for purpose' to manage the new waste and recycling contracts and the other recommendations of the audit report are in the process of being addressed.

### **4.0 Policy Implications**

- 4.1 It is now evident that the budget for recycling in 2005/2006 was significantly understated. There are several reasons for this which are now apparent.
- i. Income assumptions for recyclates were counted twice;
  - ii. Staffing levels at the MRF had been significantly underestimated;
  - iii. Part of the DEFRA grant was 'pump priming' for staffing the MRF but as the total number of staff required was underestimated the grant was insufficient even for the pump priming.
  - iv. The number of sacks required was also seriously underestimated.
- 4.2 In addition to the underestimated costs there have also been additional 'one off' costs as a result of the delays in opening the MRF and the failure to fully utilise the DEFRA grant.
- i. Transport and storage costs at Rye Harbour;
  - ii. Reduced income from recyclates stored at Rye Harbour.
- 4.3 The projected budget position is therefore as set out below. This estimates that for 2005/6 the overspend for recycling will amount to £366,000. Provisional estimates also indicate that a significant proportion of this additional expenditure will need to continue into 2006/2007 until the new contract commences. Some of

the costs will then be included within the new contract to maintain the recycling scheme at a level sufficient to meet our future recycling targets. This element of the recycling budget will therefore need to increase and the costs have been built into the base budget for 2006/7.

Item	2005/6 budget	2005/6 forecast outturn	2005/6 variance
Sack Purchase and distribution	20,000	87,000	67,000
New Collection Rounds	115,000	265,000	150,000
MRF Operating costs	20,000	123,000	103,000
Temporary Storage & Disposal	0	107,000	107,000
Income, Recycling Credits / Sales	-105,000	-166,000	-61,000
<b>Totals</b>	<b>50,000</b>	<b>416,000</b>	<b>366,000</b>

4.4 A report will be presented to Cabinet on 23 January seeking approval of a supplementary estimate to address the projected overspend in 2005/2006.

## 5.0 Conclusions

5.1 Management action has been taken to address the causes of the problems and implement the recommendations of the Audit Report.

5.2 The ongoing costs for recycling have been incorporated into the base budget for 2006/2007.

5.3 In spite of the problems that have been experienced recycling rates are now steadily improving and we have reached 19.4% for the third quarter, and if the current rate of improvement is sustained we could be at or exceeding the 18% annual average target by the end of the fourth quarter.

## Policy implications

Please tick if this report contains any implications for the following:

Equalities & Community Cohesiveness	<input type="checkbox"/>
Crime and Fear of Crime (Section 17)	<input type="checkbox"/>
Risk Management	<input checked="" type="checkbox"/>
Environmental issues	<input type="checkbox"/>
Economic / Financial implications	<input checked="" type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Organisational Consequences	<input checked="" type="checkbox"/>

Any ticked areas should be referred to in the text of the report under the heading "policy implications"

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