



environmental
services
association

RESOURCEFUL:

Delivering a strong and competitive UK resource economy

A report by the Environmental Services Association

PART ONE – BACKGROUND AND CONTEXT

INTRODUCTION

The waste and resource management industry provides a critical service to Britain's economy. Each year, the industry turns over an estimated £11bn, employing around 100,000 people and ensures the huge volume of material discarded every day is collected and managed effectively.

The world is changing though and, as a result, the framework which governs the work we do must change with it. This will ensure that Britain has a world leading and sustainable waste and resource management network which can be competitive in what is now a global market and deliver efficiency, increase productivity and employment and, crucially, create economic growth.

Here at ESA, we believe that this report – crafted by ESA in conjunction with the sector in response to a challenge by DEFRA to put forward proposals for reform – will deliver just that.

SUMMARY

This document sets out a proposed package of reforms which would lead to:

- **A private sector-led package of investment in new waste infrastructure worth £10bn¹**
- **The creation of 15m tonnes of new processing capacity²**
- **Savings of between £1bn to £4bn to the public purse (dependent on the extent to which the proposals are implemented and further detailed analysis)³**
- **The creation of 50,000 jobs**
- **Potential savings equivalent to between £50 and £250 per household on council tax bills⁴**

We want to create a world leading and sustainable waste and resource management network that will make Britain competitive within a rapidly evolving global market. This will create a more efficient supply chain, lower costs and become a catalyst for private investment.

It centres on a more comprehensive producer responsibility system, transferring responsibility for household waste resources from local authorities to product supply chains and increasing action to tackle waste crime, as well as a shift away from the old approach of arbitrary weight-based targets with greater emphasis placed on delivering value from our waste resources.

¹ “Going for growth: a practical route to a circular economy”, ESA, 2013

² *ibid*

³ Lower end of range relates to reform of existing producer responsibility schemes, while upper end is full cost transfer of waste management away from the public sector

⁴ Assuming the full savings to the public sector are passed on to householders in the form of lower council tax bills

We believe the package of measures will lead to a shift away from the fractured network of systems in place at present and create a more harmonious and coherent network which will drive efficiencies, economies of scale and, ultimately, environmental and financial benefits.

THE CASE FOR ACTION

This report sets out a case for change. But why now?

Without action, we estimate that by 2020, waste could cost local authorities and businesses an extra £260 million to £485 million per annum. In addition, around 15% of the UK's current recycling capacity will close during this timeframe, reducing household recycling rates by 5% and leading to the loss of 8,000 jobs. This will result in the UK missing its recycling targets. Those issues will be compounded by population and economic growth given the expected 10 million increase in the population over the next 20 years along with 2% economic growth per annum.

The existing way in which the UK's manages its waste and secondary resources is also hugely fragmented which leads to inefficiencies. A vast variation in the ways in which waste is presented by householders and businesses make it very difficult for industry operators to scale up and deliver consistent services around the country. In addition, a lack of regulatory enforcement undermines the case for investment in new processing facilities.

THE URGENT CHALLENGES

- **Household waste volumes are rising**, putting pressure on local authority finances, where waste collection and treatment is the third highest area of council spending behind education and social care.
- **Recycling is in decline and commodity prices are depressed.** The low price of secondary materials places a greater emphasis on the quality of materials. However, pressures on local government finances have led to reduced service levels and increasing material contamination. This means the industry is hampered in responding to the challenge the market presents.
- **The treatment gap.** As the rate of landfill closures accelerates and exceeds the rate at which new treatment capacity is being developed we are now faced with waste travelling further and increasing reliance on the export of Refuse-Derived Fuels. This effects productivity and increases the overall cost of managing resources. Building the capacity to replace closing landfills will require fresh private investment but this is unlikely to be brought forward in the absence of clear policy direction.
- **Waste crime continues to flourish.** A combination of rising disposal costs and weak regulatory enforcement has added hugely to the problem of waste crime. This costs UK around £500m per annum⁵ which includes the clean-up costs of abandoned material and tax revenues lost to the Exchequer due to evasion/misdescription issues. Illegal exports also make up a significant portion of the problem.

There is industry consensus that, without intervention, the UK's recycling performance will go backwards.

Much existing recycling infrastructure is reaching the end of its life so investment is required in new plant and machinery to maintain existing performance. In addition, fresh investment

⁵ "Waste crime: tackling Britain's dirty secret", ESAET, 2014

is also required for the industry to adapt to the changing composition of the waste stream which will result in some infrastructure no longer being fit for purpose. Without a clear sense of direction from Government, much of this investment will not materialise.

PART TWO – THE STRATEGY

Our proposed strategy consists of four main areas. These are:

- Transferring resource ownership from the public sector to product supply chains
- Building resilient recycling and recovery markets
- Realising economies of scale
- Driving waste crime out of the sector

RECOMMENDATION ONE - Transfer resource ownership from the public sector to product supply chains

Introduce Extended Producer Responsibility (EPR) schemes where the producers of products and packaging are made responsible for funding waste collection systems.

EPR schemes are already used for parts of the waste stream across many parts of the world. ESA has commissioned research to confirm how EPR would be applied in practice in a UK context and to clarify the important roles played by different stakeholders along the supply chain: from local authorities and their contractors to compliance schemes and the various producers they represent.

In the short run EPR would involve the transfer of waste management costs from local authorities to product supply chains. If applied to the whole of the domestic waste stream, this would save average council tax payers up to £250 per annum. In the longer run, the improved incentives to design products and packaging for recyclability, as well as the strengthened recycling markets that would result, would drive increased resource efficiency and improve the productivity of the UK economy. Incentives would also be strengthened for producers of products and packaging to be involved in design of waste collection systems which present and deliver materials which meet their requirements. This would have the knock-on effect of improving the recycling experience for householders and make it easier to do the right thing.

Fully funded EPR systems would be more likely to produce secondary materials of consistent quality. This would improve the investment climate for domestic reprocessing facilities which feed UK manufacturing and would enable more value to be captured within the UK.

RECOMMENDATION TWO – Build resilient recycling and recovery markets

The existing legislative framework governing waste and recycling is designed to push the maximum tonnage of recyclable materials into the market. There has been little attempt to stimulate demand for the use of those materials domestically. This has led to a situation where many of our secondary resources – both materials and fuels – are exported for the value to be recovered in overseas markets.

A stronger emphasis on stimulating demand that would pull materials through the domestic supply chain would enable more value to be captured domestically. One element of this would be EPR which would incentivise better recyclability.

In addition, more harmonised collection systems would deliver more consistent outputs and lower contamination as the recycling experience for householders would be improved. We believe the power of the public sector should be used through stronger green public procurement rules to help drive demand for recycled materials and for energy derived from waste fuels.

Private sector demand for recycled materials would also be strengthened through the introduction of minimum thresholds for the use of recycled content. Those which did not wish to adopt recycled materials could instead choose to pay a levy. This would operate similarly to the Renewables Obligation in the renewable electricity sector and would reward the use of recycled content in a way which does not currently exist. HM Treasury could use the fiscal system to offset the costs so the overall package of changes is cost-neutral to producers.

The increased demand for domestic secondary resources would help to improve the UK's resource security, helping UK manufacturing to remain competitive during any future periods of commodity price volatility. At the same time, the shift in the burden of taxation would further drive resource efficiency in manufacturing and would thereby enhance future competitiveness.

Taxes would also need to be considered in the current context of falling landfill tax revenues and how the total take to the Exchequer can be protected.

RECOMMENDATION THREE – Realise economies of scale

The current patchwork of local authority delivery creates duplication in household waste and recycling services and therefore presents a huge opportunity for efficiency savings. We believe that consolidation of waste services between local authority areas could yield between £200 million to £450 million savings to the local government sector alone⁶.

In addition, improved co-ordination between the management of household and commercial waste streams would yield significant further savings. These savings could be used to help fund the roll-out of separate food waste collections with the significant environmental benefits these bring.

⁶ Existing studies show local authority savings of up to 10% for waste services from partnership working

Realising economies of scale at a regional level would complement producer responsibility and the harmonisation of household collections that would result. It would also make it easier for responsible product supply chains to interact with the municipal recycling sector and would tie in to current thinking around devolution and greater autonomy for cities.

Scaling up the delivery of waste and recycling services would improve efficiency and yield an overall reduction in system costs. Better utilisation of assets serving both household and commercial waste would drive down processing costs and lower the gate fees faced by waste producers.

Political barriers which prevent some parts of the local government sector from entering into new joint working arrangements could be overcome through the adoption of a new challenge fund which would favour joint working and the harmonisation of collections.

Local Enterprise Partnerships could be engaged to help match waste resource flows with regional industrial demand for the full range of potential outputs from post-recycling waste (not only power and heat, but also chemicals and other high-value applications). Regulatory barriers which currently prevent the uptake of higher value waste-to-product applications in favour of lower value recycling options should also be investigated as part of this strategy.

RECOMMENDATION FOUR – Drive waste crime out of the sector

Waste crime remains a significant blight on the sector which undermines the case for investment in new processing infrastructure. It has been estimated that waste crime costs the UK economy £330 million to £810 million each year⁷.

A new settlement for regulation of the sector would clean up and refresh all legacy permits and comprehensively review existing exemptions so that all material that is stored, processed and treated is accounted for in the legitimate regulated system. More stringent requirements (particularly around operator competence and fit and proper persons tests) should be introduced for permit holders going forward. Stronger powers for the regulators to stop activity in breach of its permit should also be adopted. Combined, these factors should take unregulated activity out of what should be a regulated sector.

More rigorous application of Duty of Care should be enforced (i.e. through more stringent penalties) to ensure that all waste is picked up by a registered waste carrier and those registered carriers deliver waste to a permitted site. This would be an important tool in preventing material from leaking away from the legitimate industry and into the hands of criminals.

Stronger regulation should also be smarter regulation. A greater emphasis on innovation, rather than the precautionary principle, should be adopted to help stimulate new technical and technological solutions to managing environmental risks.

⁷ ibid

PART THREE – CONSULTATION AND FURTHER ANALYSIS

This paper sets out an outline framework which we believe will deliver the benefits referenced in part one. However, we recognise that significant consultation with a wide range of affected stakeholders – from national and local government and their regulatory bodies to producers and manufacturers as well as the industry itself – is required. A significant evidence base will also need to be created in order to justify and create a strong case for change. Our intention is to carry out an extensive consultation by meeting directly with affected stakeholders and, potentially, adapting proposals accordingly. We will also publish complementary analyses which could be used to underpin and/or adapt different strands of the strategy.

In order to create such an evidence base, ESA – or organisations commissioned by ESA – will carry out:

- **A detailed assessment of the future role of Extended Producer Responsibility** and how the future scheme design would meet this strategy's objectives
- **An exploration of opportunities for using post-recycling residual waste as a feedstock** for the UK's industrial and chemicals sectors. This would include analysis of how to realise the best value from residual waste, both in the near and longer terms. Options analysed would include the export of Refuse-Derived Fuels. The strategy would also need to consider how to ensure ongoing provision of residual waste recovery and disposal infrastructure, to support the operation of recycling and treatment facilities and to cater for specialist residual waste still requiring safe disposal to land.
- **A full assessment of the role of energy from waste** (both from residual and organic waste streams) to support decentralised energy systems
- **Analysis of the revenue implications for the Exchequer** which arise from this strategy. In particular, how we address the falling landfill tax base and fill the gap from an innovative and dynamic waste and secondary resources sector
- **A look at how resource management systems can be integrated into smart cities planning** to address issues created by increasing urbanisation.
- **A follow-up to the 2014 industry-commissioned report on waste crime**, which examines the case for a new regulatory settlement for the sector which would raise standards and drive out waste crime.

A full consultation and engagement strategy will also be completed in due course and in consultation with DEFRA.

Following the publication of this paper, setting out our initial proposals, ESA will work closely with government departments to develop more detail on the new arrangements that will be needed to deliver these proposals. We intend to engage with government and other stakeholders and complete this package of work and proposals during the remainder of 2016. Finalised analysis and proposals will be published later in the year.