

## **A beginners guide to the Landfill Allowance Trading Scheme (LATS)**

On 1 April 2005, the Landfill Allowance Trading Scheme (LATS) was launched in England. This is an innovative scheme aimed at helping waste disposal authorities to reduce the amount of biodegradable municipal waste (BMW) sent to landfill.

This guide explains how LATS works and how it can be used to help authorities that are striving to meet their obligations under the Landfill Directive.

### **How the scheme works**

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (the authorities) to reduce the amount of BMW disposed of to landfill but also provides the legal framework for the trading scheme. The scheme allocates tradable landfill allowances to each authority in England. Landfill allowances have been allocated to the authorities at a level that will allow England to meet its contribution to the UK targets under the Landfill Directive.

Within each scheme year (1 April – 31 March), authorities are able to landfill BMW up to the level of allowances held. A single landfill allowance permits an authority to landfill one tonne of BMW.

Authorities need to ensure that they hold sufficient allowances to cover the actual amount of BMW they intend to landfill over a given period. Should an authority not need or expect not to need all of its allowances in one or more scheme years, because of actual or planned diversion of waste away from landfill, the authority can sell them, or bank (save) them into the following year (subject to certain restrictions).

Equally, an authority which does not hold enough allowances to cover the amount of BMW it intends to landfill would need either to increase its rate of diversion, purchase additional allowances or borrow forward up to 5% of its following year's allocation. (See trading and banking and borrowing sections).

Local authorities do not have to trade allowances provided they do not exceed their limit on the amount of BMW they may send to landfill. Authorities can choose to meet their targets through diversion alone. Similarly, authorities may wish to co-operate to meet their targets. For example, two authorities can pool their allowances in order to invest in a shared waste management facility, but each individual authority would remain responsible for ensuring that its own targets are met.

### **The role of Waste Collection Authorities**

Waste collection authorities provide an essential component part of delivering local waste management services. Therefore, waste collection authorities need to work very closely with waste disposal authorities to ensure that LATS works effectively and the Landfill Directive targets are met. Waste collection authorities and waste disposal authorities also need to work together to discuss the most effective

diversion strategy for their area. This strategy needs to develop the necessary waste management infrastructure to achieve the diversion of biodegradable municipal waste and also meet the needs of local residents for effective and affordable waste services. Waste collection authorities should contribute to the development of a joint municipal waste management strategy that sets out how common goals are achieved. Further guidance is available at:

<http://www.defra.gov.uk/environment/waste/localauth/index.htm>

## **Biodegradable municipal waste (BMW)**

Biodegradable waste and municipal waste are defined separately in the Landfill Directive. These definitions are carried through to the Waste and Emissions Trading Act 2003. Section 21 defines biodegradable municipal waste as waste that is both biodegradable and municipal. For practical purposes, the Schedule to the Landfill Allowances and Trading Scheme (England) Regulations 2004 determines the proportions of certain waste types that are deemed to be biodegradable. These proportions range from card, paper and putrescible (green) waste at 100%, through footwear, furniture and textiles at 50%, to glass, plastic and metal waste at 0%.

## **Using the flexibilities within the scheme**

### **Trading**

Trading is not mandatory. The advantage of trading is that it helps to overcome the fact that different authorities can face different additional costs of diversion from landfill depending on their particular circumstances. For example, authorities with comparatively low additional costs of diversion have an incentive to divert as much BMW from landfill as possible, selling their surplus allowances to authorities that face higher additional costs of diversion. Conversely, authorities with comparatively high diversion costs can choose to continue with lower cost landfilling, using the money they save from the cheaper disposal option to purchase the additional allowances. Trading helps authorities find the most cost effective way of meeting their targets.

### **Banking and Borrowing**

Banking or borrowing allowances enables authorities to alter the rate at which they reduce the amount of BMW landfilled, to match their waste and investment strategies.

Authorities that have already put in place diversion systems and do not need all of their allowances in a particular year can bank (or save) those unused allowances. Banked allowances can then be used in future years to meet the expected landfill requirement, or can be traded to provide income.

Alternatively, authorities that are planning to bring diversion infrastructure on line in future years can borrow (bring forward) allowances from their future allocation to

help bridge any gap between the expected landfill requirement in the preceding years and the number of allowances available. This can be done in the expectation that once the facilities are in place, the authority would have surplus allowances.

### **Restrictions on banking and borrowing**

These flexibilities help authorities to manage their landfill allowances effectively. But they must not risk England breaching its Landfill Directive targets. To help reduce this risk, certain restrictions have been built into the scheme. Authorities may only borrow up to 5% of the following year's allocated allowance.

The WET Act prevents banked allowances being used in target years. Allowances banked before the first target year will have to be used by the end of the scheme year 2009, they will then expire. This is the same reason borrowing in a target year is not allowed as it could cause the UK as a whole to exceed its targets.

Details on how banking, borrowing and trading are recorded and counted towards achievement are set out in the sections on the Register and Monitoring.

### **Finding authorities wishing to trade allowances**

Authorities wishing to trade can be found on the LATS register via posting notices advertising allowances they wish to sell, or signalling the quantity they wish to buy. Authorities can agree to trade allowances for a future scheme year at a fixed price.

Authorities can then negotiate directly with each other or through brokers. The use of brokers is not mandatory. Allowances do not have to be traded for cash.

The bulletin board also list the price and quantity of every transaction completed, though not the specific authorities involved in each transaction, so that authorities will be able to monitor the current market price of allowances.

### **The Register**

An Electronic Register of Landfill Allowances was developed by Defra to record all allowances allocated to facilitate the trading, banking and borrowing of allowances and to make it very simple to demonstrate compliance.

The Register is an online computerised data system which tracks each allowance from issue through to its eventual utilisation.

Each authority holds an account for each scheme year, containing the allowances available for that year.

Each authority has nominated a Trading Officer, who has an allocated username and password which they need in order to log-on to the Register, to view the balance of allowances or trade/borrow allowances. Once the nominated Trading Officer has logged on for the first time, he/she will be able to create other users (from their authority or brokers) who are allocated a username and password.

Authorities wishing to borrow allowances need to record this on the Electronic Register (see above). Authorities do not need to take any action to bank unused allowances because the system transfers them into the following year's account at the end of the reconciliation period.

### **End of year reconciliation**

At the end of the each scheme year, there is a six month reconciliation period. Authorities have three months at the end of a scheme year to submit their end year data to the Environment Agency (EA) (see monitoring section). During the following two months, the EA provides each authority with a draft reconciliation between the amount of BMW the authority landfilled and the number of allowances it holds. Should an authority have landfilled more waste than it holds allowances for, it can then use the sixth month to trade or borrow allowances to balance the figures.

The Environment Agency then reconciles each authority's performance using the process outlined below. Any authority which has landfilled in excess of the allowances it holds at the end of the reconciliation period is liable to a financial penalty of £150 per tonne. The purpose of the penalty system is to provide a disincentive to authorities to landfill more waste than they are permitted by the allowances they hold.

### **Monitoring**

The Environment Agency is the monitoring authority for England and uses a mass balance calculation (see below) to monitor the amount of BMW sent to landfill in any year by each waste disposal authority.

Authorities are required to provide quarterly returns to the Environment Agency, of the tonnage of waste collected, sent to landfill and diverted from landfill, within three months of the end of each quarter. Authorities are strongly recommended to use the on-line reporting system –WasteDataFlow.

The biodegradable component of municipal waste sent to landfill in each scheme year by each waste disposal authority is calculated in England using a mass balance approach. This deducts from an authority's BMW arisings (deemed to be 68% of municipal waste arisings) the amount of BMW which is diverted from landfill e.g. by recycling paper or composting green waste.

### **Planning to use LATS effectively**

To assist local authorities in planning to meet their reduction targets, Defra launched an electronic planning tool, in consultation with the EA, the Local Government Association and the LATS Stakeholder Forum. This tool known as the Mass Balance Estimator and Allowance Manager (or M-BEAM) is a spreadsheet, which enables authorities to plan the most effective way of using LATS to suite their particular circumstances.

The tool enables individual local authorities to develop and cost their strategies for using the Landfill Allowance Trading Scheme (by banking, borrowing or trading) to help them meet their obligations under the Landfill Directive.

By entering data from their municipal waste management strategies, local authorities can use M-BEAM to:

- Estimate the number of allowances they need to hold, equating to the number of tonnes of biodegradable municipal waste landfilled. This is achieved using a mass-balance calculation produced in consultation with the Environment Agency.
- Identify any surpluses or shortfalls, by comparing the number of allowances they need to hold with their allocated allowances.
- Deal with any surpluses or shortfalls identified by modelling the impact of:
  - Re-profiling their own allowances through (automatic) banking and borrowing, and/or
  - Buying or selling allowances in different scheme years.
- Show the financial implications of the LATS strategy modelled, based on the user's estimate of the future price of allowances. This is combined with the local authority's forecast of waste management costs derived from their municipal waste management strategy (before LATS) to estimate total waste management expenditure.

M-BEAM encourages authorities to consider LATS as an integrated part of their waste strategy. It is recommended that authorities use M-BEAM to run different potential scenarios for their waste strategies combined with different potential LATS strategies. This will help authorities to determine how they can best use LATS to help meet their obligations under the Landfill Directive as part of delivering the best outcome for their locality through their municipal waste management strategy.

An updated version of M-BEAM is now available which includes the calculated amount of BMW landfilled by each authority in 2006/07. The M-BEAM tool is only available on CD, so copies can be obtained by emailing the [landfill.policy@defra.gov.uk](mailto:landfill.policy@defra.gov.uk) mail box.

### **Reducing waste landfilled**

LATS will help authorities plan to achieve their Landfill Directive targets by providing some flexibility over when reductions will need to be made.

The Waste Implementation Programme (WIP) can also help authorities to plan how to reduce BMW by offering support, guidance and funding.

[www.defra.gov.uk/environment/waste/wip/index.htm](http://www.defra.gov.uk/environment/waste/wip/index.htm)

**The table below shows illustrates the restrictions on banking and borrowing.**

<b>Scheme Year</b>	<b>Banking into Following year</b>	<b>Borrowing from Following year</b>
2005/06	Unlimited	5%
2006/07	Unlimited	5%
2007/08	Unlimited	5%
2008/09	None	None
2009/10	None	None
2010/11	Unlimited	5%
2011/12	None	None
2012/13	None	None
2013/14	Unlimited	5%
2014/15	Unlimited	5%
2015/16	Unlimited	5%
2016/17	Unlimited	5%
2017/18	Unlimited	5%
2018/19	None	None
2019/20	None	None

**The table below illustrates key dates in complying with LATS**

	<b>Scheme Year 2005/06</b>	<b>Scheme Year 2006/07</b>
April	1 April – Scheme Year begins	
May		
June		
July	Submit data for first quarter (1 April – June) by 30 September	
August		
September		
October	Submit data for second quarter (July – September) by 31 December	
November		
December		
January	Submit data for third quarter (October – December) 31 March <b>End of Scheme Year</b>	
February		
March		
April	Submit data for fourth quarter (January – March) 30 June	1 Apr – Scheme Year begins
May		
June		
July	Environment Agency calculates the amount of BMW landfilled by each WDA in 2005/06 and notifies WDA of the figure.	Submit data for first quarter (April – June) by 30 June
August		
September	Authorities given the opportunity to trade/borrow allowances if they have landfilled more BMW than allowances held, or for authorities with excess to sell allowances	
October	Any authority liable to a financial penalty will be notified by the SoS. Financial penalties will be due one month after such notification. Authorities may make a case to the SoS either to be relieved from the penalty or for the time for payment of the penalty to be extended.	
November		
December		
Trading can take place for any scheme year up until the end of the reconciliation period for that scheme year		

## Useful Contacts

Municipal Waste Policy

Tel: 020 7238 4813

Email: [landfill.policy@defra.gsi.gov.uk](mailto:landfill.policy@defra.gsi.gov.uk)

Waste Implementation Programme (WIP)

Email: [wip@defra.gsi.gov.uk](mailto:wip@defra.gsi.gov.uk)

WasteDataFlow

Email: [helpdesk@wastedataflow.org](mailto:helpdesk@wastedataflow.org)

<http://www.wastedataflow.org/>

Environment Agency

Tel: 08708 506 506

[www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)