

BUDGET 2015-16**WDA/06/15****Recommendation**

That the Authority:

1. approves the revised budget for 2014-15;
2. approves the revenue budget for 2015-16;
3. considers the Levy proposals set out in Appendix 2 to this report and agrees the proposal for a Levy of £65.591M;
4. authorises the Levy to be made on the constituent District Councils for 2015-16;
5. agrees the payment dates for the levy;
6. agrees to the proposed capital programme and in particular the development of the Old Swan HWRC across the remainder of 2014-15 and into 2015-16; accepting that the timing of the works and costs between the financial years may vary to some extent from that indicated in the proposed capital programme;
7. agrees the terms to be offered for a time-limited period for Early Retirement and Voluntary Redundancy, as set out in Paragraphs 8.7 to 8.10 of the report; and
8. grants delegated powers of the Authority to the Chief Executive to approve interim arrangements for the diversion of waste should they become available, and for the Clerk to seal such contracts, subject to the limitations set out in paragraph 7.4 of the report. Any such agreements will be reported to Members at the next available meeting.

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BUDGET 2015-16**WDA/06/15****Joint report of the Chief Executive and the Treasurer****1. Purpose of the Report**

- 1.1 The Authority is required to prepare a budget and to set a Levy each year. The level of Levy to be charged to each of the constituent Local Authorities needs to be agreed annually alongside a Levy payment schedule. The Authority also needs to consider and approve capital programme proposals.

2. Background

- 2.1 The Authority is statutorily required to manage the disposal of household waste for Merseyside District Councils and provides services on behalf of Halton Council. The Authority delivers this principally through contracts with private sector contractors who provide waste management and disposal facilities. The key contracts are the Landfill Contract held by Mersey Waste Holdings Limited (that the Authority has access to) and the Landfill Top-Up Contract which together provide access to landfill for the Authority's residual household waste. The other key contract is the Waste Management and Recycling Contract (WMRC) operated by Veolia ES. The WMRC includes the provision of transfer stations, waste transport, household waste recycling centres; materials recycling facilities, food waste processing, and has the potential for green waste composting. Together these contracts enable the Authority to manage the recycling, treatment and disposal of Merseyside and Halton's household waste. In addition the Authority also leads for the Strategic Waste Partnership on waste minimisation and education initiatives, as well as managing historic closed landfill site liabilities.

Merseyside Waste Disposal Authority**6th February 2015**

- 2.2 While the landfill contracts remain important to the Authority's strategic management of waste disposal in the short to medium term, over a longer term they present a significant financial challenge. The Landfill Tax is a levy imposed by the Government on every tonne of waste that goes to landfill. In 2014-15 the cost per tonne is £80. That cost per tonne has risen at £8 per tonne since it was introduced and £80 per tonne was indicated by successive Governments to be the maximum level it would reach.
- 2.3 In the Government's budget statement in 2014, and later confirmed in the more recent Autumn Statement, the Landfill tax will no longer increase at the rate of an additional £8 per tonne per year. Instead, the Landfill Tax rate will increase by an amount in line with RPI each year in order to protect the value of the Government's tax base. This increase, while not unexpected, had not been announced by the time of the last Authority budget for 2014-15. The inflation rate that has been applied to Landfill Tax by Government for 2015-16 is set at 3.25% which means the Landfill Tax rate for 2015-16 will be at £82.60, rather than £80.
- 2.4 The effect of the increase in tax rate per tonne is to add an additional cost pressure of over £850,000 to the Authority's base costs each year (which is based on current landfill tonnage levels, and takes account of reduction in landfill arising from interim contracts). If the Authority had not already taken steps to mitigate the impact of the landfill tax, by entering into the Resource Recovery Contract and before that the interim contracts, the total cost of the landfill tax to the Authority in 2016-17 would reach over £31M.
- 2.5 In order to reduce the extent to which the Authority relies on landfill and incurs landfill tax, the Authority has entered into two interim arrangements to divert waste from landfill. One of these is a 'framework contract' which has a three year term and for which the third year has been let (in September 2014). Under that contract, some 45k tonnes of waste are currently being diverted from landfill, at a slightly lower cost than landfill costs. (This has partially offset underperformance on the other interim contract referred to below.) This third year of the contract runs until September 2015, when there may be an option for a further 6 month extension, although the level of tonnages and costs cannot be estimated as the contract extension has not been confirmed.
- 2.6 The other interim arrangement is with Greater Manchester Waste Disposal Authority. The term of that agreement was initially for two years with an option for a third year, for up to 80k tonnes a year. The first year of the contract was effective in diverting waste from landfill and reducing the

Authority's costs. The second year of the contract has been less successful. Authority officers identified that the contracted levels of tonnages agreed by Greater Manchester were not being processed. There was a problem in commissioning at the new Greater Manchester facilities, which meant the capacity for processing the Authority's waste was reduced. The Authority and Greater Manchester Waste Disposal agreed an extension of the two year s101 agreement, which allows the 'lost' tonnages from 2014-15 to be 'caught up' in 2015-16. While the savings profile for the two years of the contract has slipped into a third year the overall level of savings from the initial two years is still likely to be achieved. Discussions over the potential contract extension into a full third year are ongoing but are unlikely to be fruitful as they are with the contractor rather than the Waste Authority. There is also a prospect of additional diversion from landfill, at lower cost than landfill, if an initiative to supply a limited amount of waste tonnes to a commissioning contract in Shropshire comes to fruition.

- 2.7 The Authority has been developing long-term options for moving away from landfill for some time and the procurement of the Resource Recovery Contract (RRC) is seen as key. On 23rd December 2013 the Authority and the consortium led by Sita (SSUK) reached financial close on the Resource Recovery Contract. This meant that the Authority and the consortium have finally legally agreed to enter the Resource Recovery Contract (RRC) for an initial period of 30 years (with a five year extension option at the end of that period).
- 2.8 The planned construction will take 33 months and the facilities are proposed to be in the Commissioning phase from March 2016 and to become operational after October 2016. By the end of 2016-17 and during 2017-18 the Authority should be able to minimise landfilling and the new contract should start to deliver environmental and financial benefits for Merseyside and Halton. There should, however, be some caution at this point. While the construction phase is, at the time of writing, going to plan (and even slightly ahead of schedule) this is a very significant engineering project and unplanned factors may cause delays over the next 12 months. In addition the lesson from colleagues elsewhere in the U.K. is that commissioning may not always be completed according to schedule and delays may occur. If there are delays there will be a financial impact on the Authority as landfilling will continue for longer than hoped for.

3. External factors

- 3.1 The general economic climate and the Government's spending reviews have meant that local government generally, and Merseyside in particular, continues to face very significant changes in the levels of funding available. The Government has once again set very challenging financial targets for Councils and although they have responded well to the changes in their financial resources up to now, those challenges mean that very difficult decisions are having to be made about the shape and size of local government services in the future.
- 3.2 In 2014-15 Merseyside Councils continued to face very significant savings targets, and for 2015-16 and beyond further very significant savings are required. The Councils have so far been able to make the additional savings but this has been through redesigning services and service provision. They are already looking towards 2016-17 and beyond where additional large savings are required.
- 3.3 The financial climate for the Councils means that the onus on the Authority is to ensure that the Levy agreed does not impose an unnecessary burden on the Council budgets. The Authority, District Council Treasurers and District Council Chief Executives have been discussing the Levy and the strategy for both supporting Districts while at the same time enabling this Authority to meet its statutory and fiduciary duties in the most prudent manner.
- 3.4 The Authority has been under pressure from the District Councils to reduce the costs of the Levy in line with the funding reductions facing the Councils. The other Levying body on Merseyside, the Combined Authority, which sets the Levy to raise funds for Mersey Travel, has been able to propose significant reductions in its Levy by changing the services it provides. The option to reduce the Authority's Levy in a similar way is not available as the vast majority of costs incurred by the Authority are related to Waste Tonnages.
- 3.5 Unless the Districts are able to deliver reductions in the tonnages they deliver to the Authority and the tonnages processed via the Household Waste Recycling Centres (HWRCs) reduces, then the Authority's cost base does not reduce significantly. If, for example, the Authority closed many of the HWRCs the tonnage currently managed through them would still be generated and Districts would be very likely to be left with the need to deal with the displaced 170,000 tonnes of former HWRC waste to collect via recycling or residual bin collection, which would then contribute

to the Authority's disposal costs and be included in the Levy. Alternatively some of the displaced waste would inevitably end up being fly-tipped leading to yet more cost for the Districts.

- 3.6 The views of Members of the Authority about potential savings options have been canvassed by officers via workshop presentations and the Members' Forward Planning Panel meetings. Members' views on potential cost reductions have been reflected in the budget proposals for the Authority to consider.

4. The budget

- 4.1 The revised estimates for 2014-15 have been established from the Authority's projected activities in the year and the projected levels of spending by the Authority; including the effective management of the Authority's contracts and from the current and projected waste tonnages arising. The outcome of the revised estimate exercise is that the projected level of spending for 2014-15 is likely to be £550k higher than originally agreed. The majority of this increase has arisen because the savings anticipated from year two of the Greater Manchester interim contract have not been realised as there were issues over commissioning their plant. These savings will still be realised, but are now likely to accrue in the year 2015-16. The HWRC performance bonus has increased as the contractor's performance has continued at well above contractual target performance levels. The impact on the Authority's income from the interest it earns on its balances has also been higher than expected. These costs are offset to a degree by a technical accounting adjustment to the capital adjustment account.
- 4.2 The overall effect of this is that the planned level of support from the General Fund balance for 2014-15 will need to be increased from just under £3M to £3.5M. In the context of the Authority's overall budgets this is relatively neutral and leaves the Authority with a reasonable level of balances to enable it to plan to mitigate some of the impacts of cost growth in the budget over the medium term.
- 4.3 The Authority's proposed budget for 2015-16 is subject to the additional pressure of an increase in the landfill tax of £2.60 per tonne, taking the tax per tonne for landfill to £82.60. This additional tax potentially adds up to £850k to the Authority's base costs for the year at current tonnage levels. The impact of this cost pressure has had to be offset by the continued use of interim contracts which remove waste from landfill; otherwise the cost

pressure would be nearer to £1M, simply because of the Government's RPI based inflation of 3.25% being added to the rate of Landfill tax.

- 4.4 There is an additional growth requirement arising from the proposed development of an HWRC in Liverpool for which construction is due to start early in 2015, and to be completed by July. This will have a part year revenue impact in 2015-16, which is likely to add over £650k to the Authority's revenue budget in that year, and over £1M a year thereafter.
- 4.5 The Authority's Waste Management and Recycling Contractor, Veolia ES, has been performing very well at the Household Waste Recycling Centres, especially in terms of recycling performance which has an impact in terms of the contractual HWRC bonus that they are due to receive, which has increased by over £500k. In addition to this the effect of contract inflation adds some £600k to the Authority's costs.
- 4.6 Elsewhere, the cost to the Authority of paying for recycling credits is anticipated to rise again, by almost £200k, to over £6.5M, and although this is charged via the Levy to Districts it adds to the pressures on the headline Levy for the Authority and Districts.
- 4.7 In 2014-15 the Authority planned to cushion the impact of the Levy on Districts by providing support of £2.96M from the Authority's General Fund (which has risen to £3.5M at revised estimate). For 2015-16, to provide a similar cushion will require a considerably larger cushion, to cover the gap between the proposed Authority budget and the proposed Levy. For 2015-16, if the Authority is to provide for another year of 'neutrality' in the overall Levy a cushion of £6.073M will be required.
- 4.8 The Authority has the prospect of the additional £6M cushion for 2015-16 being made without having such a significant impact on the Authority's balances. This is because in 2015-16 the Authority is due to receive a dividend payment from its wholly owned company, Mersey Waste Holdings Limited of some £4M, returning funds from the company that may now be considered as surplus (see report elsewhere on this agenda).
- 4.9 The net effect of the income from the company (£4M) and the contribution from the Authority's General Fund (£2.073M) is to enable the Authority to offer a neutral, or zero overall increase levy to the Districts for 2014-15. While the impact on each District is not the same due to the way the levy mechanism works, this approach was discussed at a meeting of the District Council Treasurers and received broad support.

- 4.10 Additional savings may be available for 2015-16, especially if the existing framework contract which ends in September 2015 can be extended for six months. However, this cannot be taken into account in setting the budget as it is not certain at this stage. Similarly the proposed third year of the existing Greater Manchester arrangement may yet deliver some savings, but this is yet to be considered in detail, may not arise and so no estimate of any impact can be included in the budget.
- 4.11 As part of the Authority's continuing drive for efficiency, the way the organisation utilises its resources will continue to be reviewed during the next budget cycle. Where there is scope for additional efficiencies or outcomes to be delivered, then a business case will be developed to outline for Members the costs and benefits of any proposal on an 'invest to save' basis. Where there may be benefit to the Authority from a proposed service development, Members will be asked to approve the release of funds where they are necessary to deliver additional efficiency. Normal improvements in services that may be achieved at no additional cost will be implemented as part of the normal business of the Authority.

5. The Waste Development Fund

- 5.1 Before the procurement of the WMRC and the RRC, the Authority and the constituent District Councils predicted that there was very likely to be a significant increase in the costs of managing waste disposal across Merseyside. Therefore, the Authority and Districts agreed to establish a Sinking Fund made up of contributions over time that could then be used to offset the impact of future potential very significant levy increases that the new contracts could have brought.
- 5.2 The District Councils agreed to increase the levy by 15.4% a year over a seven year period in order to build an adequate Sinking Fund, and to avoid potential cost increases of up to 26%. In the event, rather than delivering seven years of 15.4% levy increases, the Authority had two years at that level before reducing the levy to 12%. Since 2010-11 the Levy has either been held around a zero increase or has reduced each year. Despite this, due to a combination of factors including the successful negotiation of the WMRC at a price that provides value for money, continuing active management of all aspects of the Authority's performance and reductions in tonnages, the Authority's Sinking Fund held a balance of over £28M at the start of 2013-14.

- 5.3 The Authority stressed during the procurement that the Sinking Fund may have been necessary to meet potential liabilities arising from the RRC. The Authority recognised that this was unlikely to be the case and at the Authority meeting on 29th November 2013 (WDA 4913) agreed to use the Sinking Fund to establish a Waste Development Fund to support the Joint Waste Strategy and its objectives.
- 5.4 The Sinking Fund was transferred to a Waste Development Fund during 2013-14 and early in 2014-15 (10th April 2014) the Waste Development Fund, which stood at £28.9M was, paid in full to the constituent District Councils under the terms of the Memorandum of Understanding (MoU), signed on behalf of each local authority by their respective Chief Executives. The MoU reflected the agreement that District Councils were best placed to invest in opportunities to further the objectives of the Joint Waste Strategy.

6. The Levy Mechanism and recycling credits

- 6.1 The Levy Mechanism is the methodology used to divide the Levy among the constituent District Councils. The way the Levy is divided is statutory and is based on unanimous agreement by the District Councils over the way the Levy should be apportioned (in the absence of an agreement there is a statutory fallback or 'default' mechanism). The current Levy mechanism was agreed in January 2005 and included an element that related to recycling credits.
- 6.2 The Waste Disposal Authority has continued to provide a system of recycling credits to constituent District Councils at their request, although the mandatory requirement to provide such credits was removed in 2006. The Authority agreed with the Districts that this continued arrangement incentivised Districts to move away from collecting waste for Landfill. In the Authority's budget for 2014-15 the following amounts were provided:

	£
Amount included in Levy via tonnages	(5,842,020)
MWDA Expenditure on Recycling Credits	5,842,020

- 6.3 The total amount planned to be spent and the total amount planned to be raised via the tonnage elements of the levy were the same. In effect this

has been a circular flow of funds between the Authority and the Waste Collection Authorities.

- 6.4 The removal of the recycling credit levy element and payment to Districts option was included as a proposal in the Authority's budget report for 2012-13, as it had been discussed with and welcomed by District Councils. At the last minute the proposal was withdrawn as it could have had an unplanned and significant detrimental effect on the Council Tax base calculations for the Districts. The District Councils recognised the impact very late in the day and so the proposal was withdrawn and the budget re-set. The changes brought about in 2014 by the Local Audit and Accountability Act mean that this impediment to the removal of the Recycling Credits has been eliminated and so the proposal could be considered.
- 6.5 The Authority's Treasurer has made the proposal to the District Council Treasurers, but they were unable to agree to the removal of the Recycling Credits as the impact on their Environmental Services needed further consideration.
- 6.6 For 2015-16, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £6.545M taking the proposed headline levy down to £59M from £65.6M. The relative impact of the Levy, with or without Recycling Credits is shown in Appendix 2.

7. Potential savings opportunities

- 7.1 Elsewhere on the agenda the Authority is informed of a Key Decision that was considered as an Urgent item as an offer had been made to the Authority that has the potential to divert 20,000 tonnes of waste from landfill and to save up to £10 per tonne, i.e. a potential saving of up to £200,000.
- 7.2 In the period between now and the full commencement of the RRC there may be further opportunities offered to the Authority for both landfill diversion and potential savings. Members may recall that at a meeting on 25th April 2014 the Chief Executive was authorised to undertake further market testing to secure interim arrangements for disposal.
- 7.3 Work is currently underway to procure additional services under similar arrangements as were established under the Interim Framework Agreement which came to an end in March 2015. The intention had been to report back to Members for any subsequent approval of contracts,

however, due to tight timescales, delegation is now sought to allow the Authority to divert waste as soon as is practicable.

- 7.4 The delegation would be in place until the RRC was able to accept waste and would allow the Chief Executive to approve and the Clerk to seal such contracts. The delegation would be subject to such agreements being less than the cost of landfill and in line with the Authority's Contract Procedural Rules to ensure that the Authority secures value for money and complies with the relevant procurement rules.
- 7.5 Any such arrangements would be reported to the Authority at the next available meeting.
- 7.6 As a part of the process and to comply with procurement law the Authority has placed a Prior Indication Notice (PIN) in the Official Journal of the European Union (OJEU) which will enable it to take advantage of opportunities as they arise.

8. Underlying and future costs facing the Authority

- 8.1 The Authority continues to keep its funding and affordability model under review as the process of letting the new contracts has been finalised. As set out above, at the outset a funding envelope that set an annual levy increase at 15.4% was agreed with District Council Treasurers. That envelope allowed the Authority to provide for a Sinking Fund and to plan to use the fund over time to offset future very significant rises in the Levy. (For comparison; if the Levy had continued at that level of increase the Authority would currently be seeking funding of over £130M from District Councils – for 2015-16 the Authority's proposed Levy demand will, in fact, continue to be half that amount).
- 8.2 In reviewing the model, the Authority was able to reduce the Levy increase to 12% in 2009-10 and then, in 2010-11, it was able to introduce a zero increase in the overall Levy. In 2011-12 the Authority reduced the Levy by almost £3M with the 'maximum of zero' levy for all constituent Districts. In 2012-13 this 'maximum of zero' approach was repeated and the Authority's overall levy reduced by over £2.5M in the face of increasing cost pressures. In 2013-14 the Levy increase was only £132k or just 0.2% while the overall Levy did not increase for 2014-15 because the Levy was cushioned by a £2.96M contribution from the General Fund.
- 8.3 The WMRC contract continues to minimise costs to the Authority and together with reductions in waste arisings the Authority has been able to manage with lower than expected levels of Levy (although in 2014-15

there is some evidence of an increase in waste arisings from District Councils, albeit small at this stage). The costs of the landfill still continue to present a significant challenge as, with the escalating cost of landfill tax, at current waste levels if the Authority did nothing else, they would potentially increase by over £3.1M next year. The Authority is working to mitigate these cost increases via interim contracts to minimise the impact on District Councils. When the RRC contract commences operation and Landfill largely ceases, it is expected that, apart from contractual inflation, there will not be a further very significant increase in the Authority's disposal costs for the foreseeable future.

8.4 The underlying costs of the Authority have increased by another £3M which is largely due to Landfill Tax, contractual inflation and planned service developments including the new HWRC at Old Swan in Liverpool. These cost increases are offset by savings elsewhere as the Authority has continued to review its budgeted expenditure for 2015-16.

8.5 In addition to the reviewing activity and making savings the Authority has pursued the savings approached already agreed with Members:

- by the start of the new Financial Year in 2015-16 the number of posts in the establishment will reduce by 15% which represents over £200k saved;
- In terms of office accommodation the Authority continues to benefit from savings in rent over a three and a half year period.
- Agency support and external audit has reduced by over £230k
- Despite growth in Landfill tax over five years of 100% (from £40 per tonne to £80 and now £82.60 per tonne) contract costs growth has been held to 16.9%, through effective management of WMRC costs and pro-active contract management to deliver interim contracts, which both divert waste from landfill and save significant amounts.
- Closed landfill sites management costs have reduced by almost £80k
- The Communications budget has been halved before this year's savings

8.6 In consultation with Members through workshop presentations and also via the Members Forward Planning Panel, a number of further savings proposals have been developed and are included in the budget estimates as a contribution to reducing the Authority's costs and the impact of the Levy for 2015-16. The following table provides an update on how the savings considered have been taken forward in the budget proposals:

Savings proposal	Estimated savings	Status in the budget proposals
Removal of Recycling Credits to constituent councils.	£6.5M	This has not been included in the budget proposal following consultation with District Council Treasurers as a) they have not been able to consult their Environment colleagues; and b) as a levy change it requires agreement by consensus to include in our budget proposal
Additional voluntary redundancies	£80k	These savings have not been included in the budget, they will accrue only if a) the Authority agrees to another round of voluntary redundancy and early retirement; and b) the offer is taken up; then any savings will appear in the next financial year.
Interim Contracts	£800k	The potential savings will arise from the Manchester contract, where year two savings were not all achieved, but which may be achieved following the Authority's agreement to extend the period over which the 'year 2'

		tonnes are processed by Manchester. The third year of the Framework contract will also contribute significantly to this saving
HWRC Rationalisation	£100k	<p>Proposal to be developed to reduce opening hours by one hour at each end of the day at all sites (i.e. moving from 8am-8pm in summer to 9am – 7pm, and from 8am – 5pm in winter to 9am – 4pm).</p> <p>The initial proposal identified up to £300k p.a. saving, this was reviewed and found to be based not just on reductions in hours but on whole day closures in some cases. The estimated savings have been reduced as a result of both this and the time it will take to consult properly and then to implement the savings</p>
Communications – PR Agency	£14k	Services to be brought in-house, with small residual budget £5k Included in the budget proposals.
Joint Waste Strategy	£25k	Saving to be achieved

Development		by reducing costs involved in the planned review of the strategy. Included in the budget proposals
Partnership Development	£20k	Reduced spend on partnership website development. Included in the budget proposals.
Sustainable Development	£5k	Activity can be merged with other cost centres and efforts refocused on waste prevention and reuse. Included in the budget proposals.
Stakeholder Development	£5k	Activity can be merged with other cost centres. Included in the budget proposals.
Waste Prevention	To Be Determined	Re-evaluation of existing programme in terms of effectiveness and efficiency. Not yet incorporated into the budget.

- 8.7 The table includes a proposal regarding redundancy and retirement. To take this forward requires the Authority to consider and approve the proposal. In order to be able to achieve a potential reduction in staff numbers without compulsory redundancies, Members are asked to agree to a time-limited offer of Early Voluntary Retirement (EVR) and Voluntary Redundancy (VR) terms, within the relevant existing policies.
- 8.8 The existing policies give discretion to the Authority to offer various terms for early retirement or voluntary redundancy. Members are asked to agree to offer voluntary redundancy payments based on two weeks' pay. The offer for EVR/VR to remain open for volunteers until the 28th February 2015.

- 8.9 Subject to Members agreeing the recommendations of this report, the Chief Executive will offer EVR/Voluntary redundancy (VR) to employees and select individuals for early retirement or voluntary redundancy within those policy terms, according to the requirements of the service, including the retention of key skills and experience to meet the present and anticipated needs of the Authority.
- 8.10 The Chief Executive will consult the Trade Union as necessary.
- 8.11 Elsewhere proposals for Levy options that include keeping the Levy neutral or including the removal of Recycling Credits are attached at Appendix 2 to this report. The removal of recycling credits has not received support from District Council Treasurers and so has not been proposed as an option for the Authority.
- 8.12 The budget proposal for 2015-16 is to propose a neutral levy by providing £6.073M of support from the Authority's general Fund (made up of income from the company £4M and an additional contribution from the Authority's General Fund Balances of £2.073M). District Council Treasurers have been consulted over the Authority's budget proposal and the neutral overall levy was supported as this has no significant detrimental effect on this Authority or the District Councils.
- 8.13 Over the last five years the Authority has delivered significant Levy reductions or maintained a broadly neutral Levy at a time when its cost base continues to increase. This has been achieved through a combination of reducing waste tonnages, active contract management, re-engineering of service provision and the regular review of management and administration practices and budgets. This reflects the concern at the Authority to minimise the cost of the Levy to District Councils in a very difficult financial period.
- 8.14 This approach to minimising the cost of the Levy to districts will continue to underpin the Authority's financial planning in the medium term. However, this comes with a large caveat. The gap between the Authority's budgeted net expenditure and the amounts raised from Districts is growing, in the future years 2016/17 and 2017/18 the gap is expected to grow to £7.5M and then to £8.8M. At the moment, under the current projections the Authority's General Fund can support or 'cushion' these 'gaps' but thereafter there is potentially a 'cliff edge' increase required.
- 8.15 While not seeking a decision for this year's budget exercise, Members are asked to consider the steps that will need to be made to avoid the prospect

of the cliff edge increase in the Levy after 2017-18. These steps will include potentially increasing the Levy modestly from 2016-17, and seeking more significant cost savings from the Authority. It should be noted here that where there is the prospect of cost savings to be made, many of them will not address the underlying issue that the majority of the Authority's cost base is tonnage related, that withdrawing services does not reduce the tonnage generated and that where services are withdrawn those tonnes are more likely to require treatment elsewhere from the Authority i.e. ending up in Council collections, whether residual or recycling, and delivered by them to the Authority.

- 8.16 The Authority will monitor the financial position very carefully over the next few years to ensure it keeps Levy increases to a minimum. This approach will be predicated upon discussions with District Council Treasurers to ensure that the levy has the least impact possible on the Councils.

9. Capital costs

- 9.1 The estimated costs of the capital programme are shown at Appendix 3 of the report. The programme largely represents the cost of renewing the Authority's infrastructure to enable it to meet its commitment to Districts to manage the disposal of waste. For 2014-15 the proposed programme has reduced from over £1.9M to £598k which reflects a delay in the development of the Old Swan HWRC in Liverpool.
- 9.2 The future programme in 2015-16 provides the opportunity for the Authority to finalise the new HWRC development at Old Swan in Liverpool as progress continues to be made. Members are asked to approve the whole of the Old Swan HWRC Capital Programme across the two years 2014-15 and 2015-16, and to agree that where timing issues cause costs to fall into one year rather than the other, that the approval is for the whole programme across both years. In addition, the proposed programme will enable the Authority to ensure it meets its environmental commitments by ensuring closed landfill site works can be progressed.
- 9.3 The capital programme for 2015-16 includes a proposal in respect of Information Technology infrastructure to support the management of the Authority's waste contracts. The information flows between the Collection Authorities, the Waste Management and Recycling Contract and the Waste Data Flow that lead to contract payments and management information are currently managed through extensive spreadsheets which require significant data input and data quality management. The introduction of a new contract (the RRC) is likely to overload this already

cumbersome approach. A revised approach to waste data and contract management utilising an effective IT system will simplify the approach, making it more likely to be accurate and enabling staff resources to be released for more strategic interventions.

10. Budget 2015-16

- 10.1 The Authority is asked to set a revenue budget of £65,591,099 which, despite the cost pressure is the same as the previous year because of the cushioning of £6.073M provided by the Authority.

11. Levy 2015-16

- 11.1 The Levy for 2015-16 is proposed to be set at £65,591,099 which means there is no change for the year.
- 11.2 The level of Levy varies for each District dependent upon population and tonnages; this is as a result of the agreed Levy apportionment methodology.

REVENUE BUDGET 2015-16

1. Introduction

- 1.1 The Authority is required by statute to set its Levy for 2015-16 by 15th February 2015. In so doing, it needs to consider the financial effects of all factors which impact on the Authority, its Budget, the Levy and the consequential effects on the District Councils on Merseyside. These factors are summarised in the Executive Summary to this report.
- 1.2 The Authority's Levy calculation is based on its budget estimates and the Local Government Act 2003 which imposes a requirement (under section 25) that:
- 'The Chief Finance officer of the Authority must report to the Authority on the following matters:
 - a) the robustness of the estimates made for the purposes of the calculation; and
 - b) the adequacy of the proposed financial reserves.'
- 1.3 The adequacy of the Authority's reserves are considered in paragraphs 3.1 to 3.6 of this report.
- 1.4 For a number of years the General Fund Reserve was held at a 'higher than normal' level to reflect the potential for significant unforeseen costs arising from the RRC procurement. The procurement concluded last year and there are no new unexpected cost pressures other than those arising within the existing and prospective contract. As a consequence the General Fund is available to support the Authority's budget over the medium term.
- 1.5 The budget proposals reflect cushioning by the Authority of the impact of the budget on the Levy, and therefore on District Councils. This cushioning may still be possible in the medium term through the use of the General Fund over the next three years, including use of anticipated income as surplus funds are released from the Authority's wholly owned company Mersey Waste Holdings Ltd. The risk of this approach is that after the three years in the medium term plan there remains a large gap between the Authority's budget and the Levy. While Members are not being asked

to address this issue over this budget round, there will need to be consideration over the next budget round about the strategy to adopt. The Authority must be prepared to continue to work hard to strip costs out of the budgets where possible; recognising that as most of the Authority's costs are tonnage related a large part of this cost reduction can only be achieved if District Councils reduce the tonnages they provide for the Authority to dispose of. The Authority is also likely to have to consider small levy rises in the next budget round to enable the Levy income to catch up with the Authority's budgeted costs. This proposed approach would be after a 6 year period where after an initial reduction in the Levy from over £70M, it has remained stable around £65.6M and there have been no overall changes in the Levy for 5 years, despite significant increases in landfill tax over the same period.

- 1.6 The capital reserve was created to contribute towards the costs of capital schemes offsetting the costs of borrowing. It will support the Capital programme for 2015-16 and for the next two financial years; although in 2017-18 the Authority will need to consider extending its prudential borrowing by £364k if the outline capital programme is to be achieved as the reserve will have been fully utilised by then.
- 1.7 The robustness of the Authority's budget for 2015-16 is demonstrated against a table of components with the Authority's position identified against them.

COMPONENT	COMMENTS
Availability of reliable information	The budget is based on realistic assumptions of pay, price and contract increases and tonnage throughputs to recycling or landfill. This is coupled with an assessment of the major financial risks and how they are to be managed.
Guidance and strategy	The Authority's Financial Procedural Rules cover the management of its budget. The Budget timetable is well communicated and the Strategy is clearly outlined
Corporate approach and integration	Section managers identify budget pressures and risks at an early stage in the process, particularly the financial effects of landfill taxation, changes to waste management contracts and processes as well as litigation risks.
Flexibility	Flexibility in budget management is built into the Authority's Constitution.
Monitoring	The Authority operates a quarterly published monitoring regime, whilst monthly monitoring is undertaken by Section Managers and the Business Support Manager.

1.8 Based on the above arrangements, it is reasonable to consider that the Authority has a robust budget process.

2. Revised Budget 2014-15

2.1 Budget managers work with the Business Support Manager to review and monitor their budgets on a monthly basis identifying trends and any areas of potential under or overspending so that remedial action can be taken where that is necessary. The Authority formally monitors its overall revenue and capital budgets on a quarterly basis through the quarterly performance report and uses this to monitor the position at the end of the

third quarter of the year to predict the outturn for the year in a Revised Budget which Members are asked to approve.

- 2.2 The Revised Revenue Budget for 2014-15 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £66,145,469 which is an increase of £554k from the Original Revenue Budget for 2014-15 (Column 1 of the respective pages of Appendix 1) which totalled £65,591,099. This increase together has required the Treasurer to propose making the following additional adjustments to balances and reserves.

	£000
General Fund – additional contribution beyond planned levels	554

- 2.3 The final balance on the General Fund is forecast to be at £15.989M at 31 March 2015.
- 2.4 The Earmarked Reserve has been utilised to fund post-close costs of the RRC procurement and only £44.8K of a planned £110k has been committed. The reserve will not be used hereafter.
- 2.5 The Capital fund will be set aside for funding the Authority's capital programme in the short to medium term, rather than taking out additional borrowings.

2.6 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2014-15 are as follows:

	£000
<p>Establishment – reduction of £194k in employee costs accompanied by small savings across the budgets; offset by a reduction of income from Halton Council for their share of the management fee</p>	-65
<p>Contracts – increases in contract payment costs arising from lower throughput on the Greater Manchester contract than expected and an increase in the HWRC bonus, plus an increase in Landfill Tax payments as Landfill diversion was lower. The FCC interim contract payments increased as the third year was realised which has helped to offset some of the lost savings from the Greater Manchester contract. Trade waste income is anticipated to be £131k lower than expected. £42k of the increase reflects the move of Education & Awareness to this budget heading during the year.</p>	+1,203
<p>Closed landfill – savings from managing trade effluent and site costs effectively</p>	-21
<p>Rents, rates, depreciation – reductions arising from lower than anticipated depreciation and impairment costs</p>	-295
<p>Recycling credit payments – higher than expected for all District Councils (Liverpool +£37k, Wirral +£39k, Sefton +£117k, Knowsley + £208k, St Helens +£115k)</p>	+513
<p>Communications – reduction in use of PR agency</p>	-5

Strategy & resources – changes to most budgets, including an increase of £75k in community funding, offset by reductions in the re-use budget of £50k, and the waste prevention programme of almost £20k, almost all of the balance is where Education & Awareness has been moved from this budget head to the contracts section.	-46
Procurement – lower post-procurement costs than expected – offset by a contribution from balances	-65 +65
Interest – increase in net cost of interest as the income from investments has reduced significantly, in line with the reduction in funds arising from the disbursement of the £28.9M from the Waste Development Fund at the beginning of the year, despite a reduction in the cost of interest payments the net cost has increased.	+78
Capital Adjustment account – technical accounting adjustment to reflect change in depreciation above	-808
TOTAL NET INCREASE	<hr/> +554 <hr/>

3. Proposed Budget 2015-16

- 3.1 The proposed budget for 2015-16 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £65,591,099 which is the same as the allowed budget for 2014-15, i.e. despite significant cost pressures; there is no increase in the proposed Levy for 2014-15.
- 3.2 The main reasons for keeping the budget in check are as follows:

	£000
<p>Establishment – employee costs savings from Redundancy and Retirement with posts taken off the establishment, offset by pay award costs (total over £200k), together with by savings from premises, transport, agency and support costs, offset by a reduction in income from the Halton Council recharge</p>	-176
<p>Contracts – main contract payments increased by £2.024M, reflecting service inflation and HWRC bonus increases reflecting continued improved performance, as well as additional landfill tonnage compared with the previous year when interim contracts diverted waste from landfill. The Landfill tax has risen by £3.033M, reflecting both the increase in landfill tonnages and the inflation applied to the tax. The third year of the FCC interim contract is taking more tonnages than year two, so the costs have increased by £985k, while the Greater Manchester contract payment (year two catch-up) has reduced from that expected last year by £2.916M</p>	+3,718
<p>Closed landfill sites – electricity savings</p>	-8
<p>Rents, rates & depreciation – small increases in rent and rates offset by a reduction in the total depreciation and impairment charge</p>	-163
<p>Recycling credits – an increase in demand for recycling credits from all District Councils (Liverpool £73k, Wirral £62k, Sefton £182k, Knowsley £225k, St Helens £160k)</p>	+704

Communications – reduction in the amount allocated for the PR agency	-12
Strategy and resources – a growth of £25k in the joint strategy budget (as a new strategy is due), offset by reductions in most budgets, especially waste prevention 123k, and the transfer of education and awareness to contracts £42k	-170
Procurement – removal of the budget and the support from an earmarked reserve	-110 +110
Interest – reduction in interest receivable (£249k) as a result of falling levels of reserves and balances; offset by reduction in interest costs (£182k)	+67
Capital adjustment account – technical accounting adjustment	-847
Dividend – income from MWHL as surplus funds are dispersed to the shareholder	-4,000
Contribution from General Fund – a lower contribution at £2,073M, than the previous year – enabled by the shareholder dividend.	+887

Total	<hr/> 0 <hr/> <hr/>
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3.3 The proposed Revenue Budget for 2014-15 has been prepared on the basis of the following assumptions:

- No inflation unless contractually unavoidable
- 2.2% pay inflation increase – as agreed through national pay bargaining
- Capital financing costs based on the Capital programme investment as identified at Appendix 3
- That contingency sums are minimal

In addition each of the budgets has been reviewed in detail by budget managers and savings have been identified which have contributed to ensuring the budget is kept to a minimum.

- 3.4 The Authority's Balances are shown on the second page of Appendix 1 with the various amounts anticipated to be held at 31 March 2016 as follows:

	£M
General reserve	13.915
Capital reserve	2.747

- 3.5 The General Fund reserve has been applied for the following purposes in 2014-15:

- Planned support for the Levy cushion £2.960M
- Additional Support for the budget £0.554M
- Support for 'post procurement' RRC cost £0.045M

- 3.6 The level of General Reserve has been reviewed as part of the medium term financial strategy. Taking into account the current headline levels of contribution towards maintaining a neutral Levy for 2015-16, and for the following two years it is expected that the General Fund will be diminished to a level that under most circumstances would be regarded as 'normal', estimated at £3.345M.

- 3.7 While that seems low by comparison with more recent trends it will reflect the relatively reduced level of risks faced by the Authority, while ensuring the Authority does not hold funds for which there may no longer be a use and supports the District Councils as they come to terms with an ever increasingly difficult financial regime.

- 3.8 The level of General Fund will be reviewed as part of the review of the level of expenditure and Levy strategy over the next year. Even with a Levy at over £3m the Authority faces the prospect of a cliff edge rise in the levy in 2018-19, unless there are very significant cost savings (i.e. the levels of waste delivered to the Authority by Districts diminishes significantly) or there will need to be increases in the Levy in the medium term to enable the Authority to close the gap between spending and income.

Risks

Risk	Potential impact	Risk category
Contract prices in RRC contract are higher than anticipated	The RRC has reached financial close – prices are now fixed and can be relied upon not to change in an unplanned way	Low
Additional Waste arisings as the economic downturn diminishes	Contract payments increase and exceed expected levels, there is some (unaudited at this stage) evidence that this may be starting to happen	Medium
Delay in commissioning the RRC Energy from Waste plant and the Rail Transfer Station	If commissioning is delayed then the Authority's costs will not be reduced, either during the planned commissioning period, or afterwards as service commencement is delayed, if this happened the General Fund will need to be utilised more quickly – perhaps in full, and a decision may need to be made to apply the balance of the capital reserve back to the General Fund, and thereafter any capital expenditure would add to the Authority's borrowing costs.	Medium to high

4. Capital programme

- 4.1 The Capital programme is set out at Appendix 3 of the report. The programme represents the continued development of the Household Waste Recycling Centres across Merseyside as well as ensuring that there

is a continuing programme of site works and developments at the closed landfill sites managed by the Authority.

- 4.2 The funding for the capital programme will be through a contribution from the capital reserve before considering an extension of the Authority's Prudential Borrowing, which may be necessary to complete the programme in 2017/18. The impact of the existing prudential borrowing is set out in an annex to the Treasury Management Strategy Statement 2015/2016 elsewhere on this agenda.

5. **The Levy**

- 5.1 The Authority is required under section 74 of the Local Government Finance Act 1988, as amended, to issue its Levy demands upon the District Councils of Merseyside before 15 February 2015.
- 5.2 The Levy is made by the issue of demands stating the dates on which instalment payments are to be made and the amount of each instalment. For the purpose of standardisation it is recommended that the Levy be paid by way of ten equal instalments on the following dates, in line with the Levying Bodies (General) Regulations 1992 payment schedules:

16th April 2015	22nd October 2015
28th May 2015	27th November 2015
3rd July 2015	7th January 2016
10th August 2015	13th February 2016
16th September 2015	16th March 2016

- 5.3 It is proposed that a levy of £65,591,099 is set for 2015-16. This represents a 'no overall change' in the levy and is based on recovering the Authority's budgeted costs after contributions from balances. For each of the constituent Districts there are changes in the levy demand, as calculated through the levy apportionment methodology.
- 5.4 Members will recall that the levy apportionment methodology is based in the 'polluter pays' principle which means that tonnage based costs are based on the last full financial year's tonnages (subsequently adjusted to actual in the year), and the balance of costs is apportioned on estimated population.

- 5.5 The proposed levy for 2015-16 for each District is shown below, with comparisons to 2014-15. The methodology used to establish the District Levy is attached at Appendix 4.

District	Levy 2014-15 £	Proposed Levy 2015-16 £	Change £	Change %
Knowsley	7,393,466	7,075,562	-317,904	-4.3
Liverpool	22,693,951	22,383,549	-310,402	-1.4
St Helens	8,217,370	8,139,758	-77,612	-0.9
Sefton	12,200,903	12,461,387	+260,485	+2.1
Wirral	15,085,409	15,530,843	+445,443	+3.0
	65,591,099	65,591,099	0	0

6. Risk Implications

6.1 The Authority's budgeted costs continue to increase as the vast majority are waste tonnage related, and there is no reduction in the tonnes the Authority is required to process. At a time when the financial pressure on constituent District Councils is severe, it is incumbent upon the Authority to mitigate the impact of the Levy as much as possible. For 2015-16 and beyond it is possible to utilise the Authority's reserves and additional income to mitigate the impact of the Levy and to keep the Levy stable. However, in the longer term there will remain a budget gap that requires closing, probably through a combination of cost reduction where possible, prudent use of reserves and in all likelihood modest increases in the Levy going forward.

7. HR Implications

7.1 The report contains proposals regarding the extension of the voluntary redundancy and the voluntary early retirement schemes. If there are expressions of interest from staff, then the Authority will have decisions to make about which of the staff should be allowed to take advantage of the terms on offer and which to retain. In the event that there is some take up of the offer, the Chief Executive will determine which posts will be affected. The Chief Executive will also then consider how the Authority's remaining staff resources will need to be deployed operationally going forward.

8. Environmental Implications

8.1 There are no new environmental implications arising from this report, although it does cover the period when the Authority makes the transition from Landfill to the new Resource Recovery Contract.

9. Financial Implications

9.1 The financial implications run throughout this report.

10. Legal Implications

10.1 The Authority is setting a budget for 2015-16 which ensures there is sufficient income and resource to cover budgeted expenditure. Looking into the future decisions about how that will continue to be achieved will need to be made.

10.2 In the run up to the RRC the Authority may wish to avail itself of short term contracts that could save the Authority money and provide value for

money. In entering any such arrangements officers must ensure that the appropriate legal and procurement framework has been complied with.

11. Conclusion

- 11.1 The Authority is required to establish and approve a budget for 2015-16 and to set a Levy for the same period that it applies to the constituent District Councils. The report and its appendices and recommendations enable Members to consider and approve the proposed budget and Levy.
- 11.2 Members are also asked to consider and approve the proposed capital programme, including allowing for some flexibility in the two years over which the Old Swan capital works are planned.
- 11.3 Members are asked to consider and approve a framework for relatively quick decisions to be made in light of potential interim contract offers that may be made before the RRC is in place.
- 11.4 Members are asked to approve a further offer of voluntary redundancy and early retirement to be made to staff for a time limited period.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.