MWDA Outturn report 2016-17

WDA/18/17

Recommendation

That Members note:

1. The final outturn position with regard to the Authority’s Expenditure for 2016-17; and
2. The final outturn with regard to the Authority’s Prudential Indicators as included in Appendix 2.

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MWDA Outturn report 2016-17

WDA/18/17

Report of the Treasurer

# Purpose of the Report

* 1. To advise Members of both the final outturn with regard to the Authority’s Capital and Revenue expenditure in 2016-17 and the position of the Authority’s reserves. The final outturn positions for the Authority’s Prudential Indicators are included in the report for Members to note.

# Background

* 1. The financial position of the Authority is reported to Members as set out in the Financial Instructions which support the Financial Procedural Rules. This report is compiled at the end of the year and shows the final outturn position.
	2. The Authority is required to consider the final outturn position on the Prudential Indicators as a part of the statutory Prudential Code for Capital Finance. The outturn position for the Prudential Indicators is shown in Appendix 2 compared with the Revised Estimate for indicators approved by the Authority on 3rd February 2017.

# Key areas of the report

Merseyside Waste Disposal Authority

23 June 2017

## Capital expenditure

* 1. The Authority did not spend any significant amount on a capital programme for 2016/17. There was a spend of £14k of ICT expenditure on development of the COGNOS system. This was offset by the return of a provision that had been set aside for payment of year end costs of £36k which in the end did not materialise.
	2. Elsewhere the Authority generated a £55k capital receipt from the sale of the In Vessel Composting unit which had been fully depreciated and was not in use for the Authority’s continuing activities.
	3. The Authority’s significantly reduced capital programme and the small capital receipt generated from the sale demonstrated that the need for a significant Capital Reserve had diminished. In consequence the remaining capital reserve which had been previously used to fund the capital programme was transferred to the General Fund at the year end. This was possible because the reserve had been created from General Fund reserves in the first place. Should there be a review of capital programme and funding requirements in the future the Authority will need to consider the use of additional Prudential Borrowing at that stage to cover the capital costs.

# Revenue expenditure

* 1. The Revenue Outturn is attached at Appendix 1 and shows the Original Approved budget as well as the Revised Estimate (approved at the Authority Budget meeting on 3rd February 2017). The Outturn Expenditure for 2016-17 is shown and the comparison of that with the revised estimate is shown in the variance column which indicates where expenditure and income are higher or lower than anticipated.
	2. The final Revenue Outturn shows that the Authority spent some £136k less than planned at the end of 2016-17, which is reflected in an additional £136k contribution to the General Fund. The General Fund contribution to support revenue costs in overall terms was £6.255M rather than the £6.391M that has been planned at revised estimate. Achieving an outturn that is within £136k of the revised estimate with a turnover of over £73.3M should be regarded as a successful financial outcome for the year.
	3. The overall outcome contains a number of variances from the individual revised estimates and the main differences can be analysed as follows:-

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| --- | --- |
|  | **£000****(under)/over spend** |
| **Establishment** The underspend here reflects savings across the board on the administration of the Authority and its staffing. * Savings made include, employees (£61k), premises (£11k), transport (£8k), Supplies and services (£34k), Education (£5k), Agency (£39k) and Support (£36k).
 | (179) |
| **Contract payments** The Authority managed its costs on the contacts well and the overspend is just over 1.4% compared with the overall budget of £62M. The key issue in terms of contracts was that the Resource Recovery Contract (RRC) continued to be delayed. For the purposes of the revised estimate exercise an assumption was agreed that the RRC would commence in February, this has not been achieved by the contractor for a number of operational reasons. At the same time the Authority’s longstanding landfill contract arrangements came to an end. In consequence the Authority has had to work hard to find suitable disposal points for Merseyside’s residual waste.While the expectation may have been that in the Commissioning phase, prior to full service, the RRC with MERL would be less expensive than at full service the reality has been that as a consequence of the operational issues the amount of waste going to the MERL contract under the RRC for commissioning has been lower than expected. This has led to the need for the Authority to make different arrangements for disposal, as reported to Members in the recent Authority meetings. These have included landfill and therefore landfill tax. The savings that were expected from the commissioning arrangements have not accrued as further interim arrangements were required.Elsewhere, the anticipated income from dealing with Trade waste has not been achieved, resulting in a £526k negative performance. The trade waste for each Council is lower than had been expected, and for Liverpool where an amount of £325k had been anticipated this is now being reviewed by Liverpool as they believe their arrangements did not amount to Trade Waste. Until this discussion is concluded the Authority has to prudently assume the amount will not be forthcoming. | 873 |
| **Closed landfill site management**The Authority has made savings on the cost of the Closed Landfill Sites it manages. There were significant savings in maintenance and the costs of trade effluent, as well as a saving in electricity, as a result on innovations in the way the Authority manages the discharge from the sites. | (55) |
| **Rent, rates & depreciation**The revised estimate of the cost of depreciation was lower than the actual costs of depreciation due to changes in asset lives, which largely accounts for the overspend in this area. | 164 |
| **Recycling credits**There is a saving here which reflects an overall reduction in tonnages recycled by Districts for which credits may be claimed (Liverpool -£30k; Wirral +£30k; Sefton -£88k; Knowsley +£3k; St Helens +£16k) | (70) |

|  |  |
| --- | --- |
| **Communications**On a relatively small budget, relatively large savings across the board. | (21) |
| **Strategy & Resources**The savings arise mainly from reductions in spending on: Strategy update -£14k; Community funding -£1k; the re-use scheme -£51k; the Waste Prevention Programme -£93k. Savings on the Waste Ecosmart programme are offset by equal and opposite reductions in the income from the programme. | (157) |
| **Service review**The Authority set aside a sum from its General Fund to support the legal and advisor costs that may arise from changes proposed to services as a result of a service review. Due to the commissioning of a Strategic Review (also funded from set aside General Funds) this service review was delayed and so there was an underspend. The amount set aside for the Strategic Review was also underspent at the year end. | (119) |
| **Other costs**The contribution in respect of technical capital accounting is lower than estimated, but offsets depreciation and impairment costs included above. | (165) |
| **Interest costs**The combination of lower than estimated interest payable (£415k) and lower than anticipated income from interest receivable (£8k) has had a positive effect on the Authority’s costs. | (407) |
|  | **(136)** |

* 1. The section at the end of Table 2 of the summary in Appendix 1 shows the Authority’s Earmarked and General Balances, together with the movements in and out during 20161-17.
	2. A summary of the Balances at 31 March 2017 with a comment about why the amounts are set aside is shown as follows:

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| --- | --- |
|  | £M |
| **General Reserve** To cover risks to the Authority in carrying out its functions, and in line with the budget strategy to mitigate the impact of the Levy on constituent District Councils, there is already a commitment to utilising a very significant proportion of this reserve to subsidise the Levy in 2017-18 and it is likely that the remainder will be required in the year that follows. This cannot continue unabated as the fund will run out quickly, leaving a cliff face increase in the Levy over the next budget cycles.  | 11.639 |
| **Capital Reserve** The Capital Reserve which was originally funded from revenue was transferred at the year-end back to the General Fund, to provide additional support. | 0 |
| **Capital Receipts Reserve** This represents the amount received in respect of sale of the IVC; as it was income from a capital receipt it may only be used to fund capital or to pay off outstanding loan debt. | 0.055 |
|  | 11.694 |

* 1. The total General Fund reserve available to the Authority is £11.638, which is already largely committed to supporting the Levy over the current and next year. The remaining £55k is a capital receipt and its future use is restricted to capital procurement or paying off capital debt.

## Prudential indicators

* 1. The Authority set its Prudential Indicators in the budget meeting for 2016-17. These indicators were recently revised at the Authority meeting on 3rd February 2017.
	2. Appendix 2 shows the actual outturn against the revised Indicators. The key reason for variation from revised estimate expectations was that the Facility Operational Date for the Resource Recovery Contract was delayed due to technical operational issues experienced by the contractor, therefore the financial assets and liabilities associated with this type of contract did not accrue during 2016-17. They are likely to need to be taken into account during 2017-18.
	3. It is important for Members to note that the Authority remained within the boundaries of the Prudential Indicators and the borrowing framework authorised through their approval.

# Risk Implications

* 1. The reasons for the earmarked reserves have been set out in the previous section of the report, but there is a need to check on the level of the General Reserves and their adequacy to cover possible financial risks and challenges to the Authority in the coming years.

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| --- | --- |
|  | £M |
| Total balances held by the Authority at 31 March 2017 | 11.694 |
| Less – earmarked Capital Reserve  | 0.055 |
| General Reserve | 11.638 |

* 1. The General Reserve is already committed to providing support for the Levy in the current and next financial years. The General Fund is very likely to be utilised fully over these two years, after which very significant rises in the Levy are likely to be required regardless of savings options and the outcome of the City Region’s Strategic Review of Waste Collection and Disposal Services.
	2. The following risk assessment has been made:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Identified Risk** | **Likelihood Rating** | **Consequence Rating** | **Risk Value** | **Mitigation** |
| Additional costs of waste management contracts including continued interim arrangements | 5 | 3 | 15 | General Fund Provision – contract management, increase in the Levy going forward |
| Potential for cost increases over time in the short to medium term as the RRC commences. | 4 | 4 | 16 | General Fund provision, supported by the use of interim contracts and contract management to mitigate any cost increase. Increase in the Levy going forward |

* 1. The level of balances although adequate at the moment is starting to become precarious. The implementation phase of the RRC is due to be completed soon and that should provide some cost certainty, however the Authority’s projected expenditure continues to be significantly in excess of the Levy which has been held at artificially low levels, with no increase for the last eight years. The City Region have been made aware of the likely need for a significant increase in the Levy next year and a large increase the year after to ensure the Levy income is brought back into line with the Authority’s likely costs.
	2. At the same time the outcome of the City Region’s strategic review is becoming clearer. The Authority is recognised as a cost effective organisation with extremely good contractual arrangements. While the Authority can identify savings in some areas of its operation these tend to push costs elsewhere, and can only be properly considered when measured against other measures which the City Region may decide to consider.

# HR Implications

* 1. There are no HR implications

# Environmental Implications

* 1. There are no environmental implications

# Financial Implications

* 1. The financial implications are set out in the body of the report.

# Legal Implications

* 1. The legal requirement for reporting to Members on the position of the Authority in respect of its Prudential Indicators is met through this report.

# Conclusion

* 1. The report identifies the financial performance of the Authority in the financial year 2016-17; it indicates the level of reserves and comments on their adequacy. The report also confirms the Authority has operated within the boundaries of its approved Prudential Indicators.

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