BUDGET 2018-19
WDA/05/18

Recommendation

That the Authority:

1. approves the revised budget for 2017-18;

2. approves the revenue budget for 2018-19;

3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £71,494,294;

4. authorises the Levy to be made on the constituent District Councils for 2018-19; and

5. agrees the payment dates for the levy;

6. agrees the indicative capital programme for prudential borrowing at Appendix 3

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BUDGET 2018-19
WDA/05/18

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 also 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.

2.2 The Authority's main contract to dispose of residual waste, the Resource Recovery Contract (RRC) was due to commence full operation during 2016-17, however there were delays caused by a small number of technical issues. The RRC full commencement was put off until September and so for the first half of the year the Authority was working with the contractor MERL and their main contractor Suez to provide commissioning tonnages where they were called for. At the same time where commissioning tonnages could not take up the full amount of residual tonnes required for disposal the Authority secured a number of short term 'interim' contracts to provide capacity to deal with the disposal requirements. The combination of interim contracts and commissioning tonnages taken by MERL meant that the Authority was able to meet its disposal requirements during the period up to full operation of the contract, and thereafter through the RRC itself. The RRC has been in full operational mode since 1 September and now deals with all the Authority's residual waste.

2.3 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. The contractor has worked with the Authority by providing flexibility in its waste transport operations to help to ensure that the transition from landfill to the RRC via interim contracts has been successful.

2.4 Together these contracts have enabled 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.

3. Contract arrangements

3.1 The Authority signed the Resource Recovery Contract (RRC) in December 2013 which will enable the Authority to move away from disposal by Landfilling. The contract was originally signed with Sita Sembcorp UK , who have since been renamed as Merseyside Energy Recovery Ltd (MERL). The contract was for the construction of an Energy from Waste plant in Redcar and a Rail Transfer Loading Station in Knowsley. Under the contract all the waste for disposal, delivered by the constituent District Councils and Halton Council (under an Inter Authority Agreement), is transferred by rail from Knowsley to Redcar where it is used by the contractor to generate electricity.

3.2 The plant was due to commence full operation in October 2016, and in very large part the construction of both of the facilities, at Kirkby in Knowsley and at Wilton in Redcar went to plan and was successful. However, there were a small number of technical problems with the way the new facilities were found to have been operating in practice which led to some delays in moving from Commissioning and into full contract handover.

3.3 The technical problems which held up the handover of the facilities for full operations under the contract included the need to review and address the effectiveness of compactors (which are used to fill containers with waste that are then loaded onto trains for transfer to Wilton).

3.4 There has also been a need for an investigation and additional works required arising from addressing concerns that have been expressed to the operators over odours which may, in part, have arisen from the Knowsley Rail Transfer Loading Station. The Authority will continue to monitor the position to ensure that where there are matters of concern they are addressed appropriately.

3.5 The technical issues which the contractor and its subcontractors were required to deal with before the plant could be fully handed over, had an impact on the planned tonnages that were required for commissioning the plant, which means that tonnages that were due to go to the plant in full operation have not been achieved in 2017-18.

3.6 In terms of the main RRC contract this came into full operation in September 2017, and the revised and forward budgets have been prepared on this basis. The cumulative effect of a combination of an extension to commissioning beyond planned dates, and a delay in facility operation means that the Authority is not anticipated to be significantly different from expected; this is reflected in the revised estimate and the reserves available to support the levy.

3.7 The early years of the contract will continue to be challenging financially as the opportunities for sharing income from third party sales of treatment facilities and electricity income are limited in the first years of the contract. The Authority's flexibility to manage those costs without an impact on the Levy was limited when the Sinking Fund which became the Waste Development Fund was returned to constituent District Councils. The RRC overall is a very good environmental and financial deal for Merseyside and Halton, but the transition from landfilling to the full operations under Contract has been more of a challenge than expected.

4. External factors

4.1 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.

4.2 In 2017-18 Merseyside Councils continued to face very significant savings targets, and for 2018-19 and beyond further 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 2019-20 and beyond where additional savings continue to be required.

4.3 The financial climate for the Councils means that the onus on the Authority has long been 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 and Leaders 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.

4.4 Responding to the financial pressures on Councils the Authority has not increased its Levy on District Councils in overall terms for a period of eight years. The Authority's financial position has been supported by increasingly large contributions from the General Fund Reserve. While this contribution has been possible up to now, they are no longer possible as the General Fund is depleted. The approach of taking one-off monies from the General Fund to subsidise the Levy in unsustainable and this has been reflected in budget reports over recent years. A more prudent financial strategy was to call for modest increases in the Levy over a number of years to ensure the Levy was able to 'catch-up' with the Authority's overall costs.

4.5 The Authority confirmed for District Council Leaders and Chief Executives in January 2017 that if the Levy did not start to grow modestly for the 2017-18 budget then there was going to be a cliff edge as the General Fund had been used up. The vliff edge increase was set out in the budget for 2017-18 and confirmed that the levy may need to increase by 11.5% in overall terms in 2018-19. The Levy for 2017-18 was approved at a zero overall increase and therefore the prospect for 2018-19 is for a large increase in the Levy demand.

4.6 During the year at meetings of Merseyside Directors of Finance it has been made clear to District Council Treasurers that the Authority's ability to reduce the likely Levy demand during 2018-19 was very limited and that they should continue to plan for an overall 11.5% increase.

4.7 The Authority's financial position has been increasingly difficult to manage and the pressure from the District Councils is understandable, but is increasingly difficult for the Authority to respond to. The vast majority of the Authority's costs are generated from waste arisings, and the costs associated with treating them. Unless the overall amount of waste, both for disposal and recycling, reduces by a considerable amount it is difficult for the Authority to reduce the budget and to set a Levy in line with or lower than prior years.

4.8 During last year's budget exercise the Authority was asked by the City Region leaders to respond to a further year of levy freeze; at the same time it was also asked to agree to contribute to a City Region wide review of waste collection and disposal, the Strategic Review. The review was led by the Mayor of Liverpool City Council and the Chief Executive of Wirral Council and the Authority was asked to contribute.

4.9 The outcome of the Strategic Review has been published recently. The review confirms that the Authority's contracts are effective and that the scope for significant savings remains limited. It also confirmed that to enable the City Region to achieve a larger scale of efficiency would require more significant joint working between District Councils than they have been able to achieve to date.

4.10 The Authority has also recently been asked to contribute to the implementation phase of the review and will be working with colleagues across the City Region to ensure the best outcome for waste collection and disposal across Merseyside.

4.11 In the initial phase of implementation the Authority has recently been asked to look at whether a saving of up to £500k can be achieved from the way it carries out its disposal function. Officers have consulted the Authority Members over the potential for savings proposals, and that consultation has recently been expanded to include City Region Chief Executives and Leaders. There are a number of ways of potentially achieving the hoped for £500k saving, but each of them has some risk and carries the potential for local political impacts, so any decisions will need careful consideration and should not be made lightly. The delay in being asked to provide potential savings proposals and the need to ensure full political consultation and consensus over any proposed way forward means that it is very unlikely that any full year savings will be achieved for 2018-19, these are more likely to be achievable for 2019-20.

4.12 The Authority has also been asked to provide an insight into the levy mechanism and offer options for a different levy mechanism. This work is underway but as a reminder, changing the levy mechanism does not impact on the costs of the Authority, it simply shifts where the burden of paying for the Authority falls. Initial work on levy mechanism proposals suggests that under each proposal there are different outcomes for different Councils, no one solution reduces the costs for all. Inevitably there will be winners and losers from this process and consensus is required to achieve a change, this has proven difficult to achieve in the past. The Strategic Review suggested that this review would be best completed when other parts of the review's recommendations had been implemented.

4.13 The Strategic Review identified that there may be opportunities for closer working between the City Region, the District Councils and the Authority through a review of Governance arrangements. Again this in itself will do nothing to reduce the Authority's costs significantly, but may lead to improvements in the opportunities for working strategically together with partner organisations.

4.14 In the interim, as a key part of the role the Authority has been reviewing its budget proposals and considering all the elements of the budget that it can impact upon to mitigate the effect of the potential levy increase of 11.5% for 2018-19. The Authority has been reviewing costs in some detail, has pushed on the potential for income as hard as is reasonable and has identified the potential for one off monies that may be drawn down from the wholly owned company, Mersey Waste Holdings Ltd. The combination of these factors has enabled the Authority to propose taking 2.5% off the headline levy increase bringing the Levy increase down from 11.5% for 2018-19 to 9%; a reduction of over £1.7M.

5. **The budget**

5.1 The revised estimates for 2017-18 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 2016-17 is likely to be £74.760M which is slightly higher at £355k higher than originally agreed.

5.2 The small increase has arisen from a combination of very small spending changes compared with planned budgets. The Contracts budget is expected to be very slightly overspent by £174k, or just over a quarter of 1 percent on an overall budget of £64.7M, which will be a very significant achievement in the face of the circumstances of the delay to commissioning and full operation of the main RRC. Elsewhere underspending on administration and recycling credits £303k are offset by rates bills not reducing in line with expectation (as delays in reductions to rates bills were not announced until after the budget was completed last year) as well as increasing interest costs.

5.3 The overall effect of this is that the planned level of support from the General Fund balance for 2017-18 will be increased from £8.814M up to £9.169M. This leaves the Authority with fewer balances and limits the ability to enable it to plan to continue to mitigate some of the impacts of cost growth in the budget in the next year. These reserves can only be used once and even taking account of proposed savings, without levy increases going forward, the Authority's financial position is at risk of being untenable.

5.4 The Authority's proposed budget for 2018-19 is presented at a time when the Authority faces significant financial challenges. From September 2017 the Authority has been fully utilising the RRC facilities to dispose of residual waste arising in Merseyside and Halton. The Authority's contracts team has worked closely with the contractor to develop a shared understanding of the tonnages flowing into the contract, the gate fees for those tonnages and the pass through costs (for example the share of NNDR at the facilities) which together with the gate fees form the monthly unitary charge.

5.5 At the same time both the Authority and the contractor are working hard to develop a similar shared understanding of the potential for income streams to flow from the utilisation of the EfW plant, both through electricity sales and the potential for sales of surplus treatment capacity to third parties. Neither of these potential income streams is fully predictable as they depend upon the scale and prices achieved for each, which will depend upon the market conditions encountered during the year. As an example, if the cost of oil increases internationally it is likely that the price achieved for electricity generation could increase, but this is not certain. Until the contract has been managed in full operation for some time it is difficult to take account of the potential for income.

5.6 During this phase of transition to the RRC the Authority faces a peak in its costs as the initial costs come fully on stream. Over the life of the contract as the amount of waste anticipated to be treated from Merseyside and Halton reduces the prospects of the unitary charge being held at a relatively steady cost, despite inflation, is realistic.

5.7 In the event that the waste sent by Merseyside for treatment starts to reduce and follows the Guaranteed Minimum Tonnage (GMT) in the contract then the contractor will also have the opportunity to sell the freed up surplus capacity to the third party market. Under the terms of the contract then there will be opportunities for income sharing with the Authority, which may become significant. The incentive for the contractor to sell any additional capacity is tied up not just in sales income, but also in the efficient running of the plant, which works best when near to capacity and the electricity sales that can be generated from that, which are needed to achieve the contractor's base case, but once beyond that are useful for the authority as an income sharing arrangement is in place.

5.8 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. This will particularly apply to proposals for savings arising from the Strategic Review. 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.

5.9 There may also be requests arising from the Strategic Review to achieve savings, for example by reducing the opening hours or days at HWRCs and indeed to close a small number of sites completely. These requests may lead to some savings overall, but the initial implementation may also lead to the need to provide additional one-off funds to deliver savings and to to compensate the contractor and consider reconfiguring other sites where additional demands may be made for services displaced from the sites that may close.

6. <u>The Levy Mechanism and recycling credits</u>

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 fall-back or 'default' mechanism). The current Levy mechanism was agreed in January 2005 and included an element that related to recycling credits; the mechanism is explained in Appendix 2 to this report.

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 2017-18 the following amounts were provided:

	£
Amount included in Levy via tonnages	**(4,924,880)**
MWDA Expenditure on Recycling Credits	**4,924,880**

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 has been discussed by District Council Treasurers on a number of occasions over recent years, but there has been no consensus for the removal of the credits. This forms part of the Levy mechanism so the Authority cannot unilaterally remove the circular collection and payment of the amounts, despite the changes brought about in 2014 by the Local Audit and Accountability Act, which mean that the financial impediment to the removal of the Recycling Credits has been eliminated and so the proposal could be considered.

6.5 For 2018-19, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £4.984M. The net effect on Districts overall would be zero , however, as the Authority would cease to pay out the same sum £4.984M back to Districts that it had raised from them in the first place. There may also be a small savings arising from no longer administering the scheme.

7. Underlying and future costs facing the Authority

7.1 The Authority continues to keep its funding and affordability model under review now that all the new contracts for long term treatment and disposal of waste have been finalised.

7.2 In 2017-18 when the Authority sought a rise in the levy, it was asked to accept no increase, funded by a planned £8.8M contribution from reserves, after which there would be little left. The Authority accepted this request, which gave no Levy increase for an eight year, with the clear proviso that District Councils accept for 2018-19 that there would be a cliff edge increase of up to 11.5% (which the Authority has been able to hold to 9%).

7.3 The Authority's approach of simply utilising reserves has now become unsustainable as the Authority's reserves have effectively run out. The gap between Levy and the costs of dealing with the amount of tonnes delivered by District Councils and households needs to be closed. Tonnages are not reducing and so the need to increase the Levy is imperative. The gap between expenditure and funding needs to be closed, and tonnages are not reducing. The one off use of balances to close the gap can no longer be sustained, Levy increases of 9% for 2018-19 and 7% the year afterwards are required to close the gap (followed by 2.8% thereafter).

7.4 The WMRC contract continues to minimise costs to the Authority and the Authority has been able to manage costs effectively. The Authority's transition to Commissioning and then to full operation of the Resource Recovery Contract (RRC) has presented the biggest challenge, both operationally and financially, over the medium term.

7.5 With the RRC in full operation the underlying costs of the Authority will stabilise and the growth in the authority's costs as reflected in cost of the contracts taken together is below 2% per year, but to reach that point a gap between the Levy and the costs will have to be bridged.

7.6 It should be noted that simply looking at the Authority's Gross Costs – before Levy these have been reduced over the last three years from a planned £75,4M in 2016-17, to a planned £74.4M in 2017-18 and finally down to £72.7M in 2018-19. The Authority is actively managing its contracts and its costs.

8. Budget options

8.1 Over the last eight years the Authority has delivered initially significant Levy reductions and thereafter has maintained a broadly neutral Levy at a time when its cost base has continued to be significantly higher than the Levy. This has been achieved through a combination of 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.

8.2 In 2017-18 the gap between the Authority's likely expenditure and the current level of the income from the Levy is £9.1M. This gap will remain in 2018-19, and 2019-20, but the level of reserves available to support the Levy that year will be minimal, meaning that a Levy rise of 9% will be required in 2018-19 to fund the likely level of expenditure.

8.3 Working towards the Strategic Review has provided an opportunity for the Authority to work with the constituent District Councils to review potential savings opportunities, both from the Authority's perspective and from the perspective of the Districts in a strategic and equitable way. If those savings opportunities can be identified it may impact, by a small amount, the scale of future proposals for Levy increases to ensure the financial gap is closed.

8.4 In looking at future potential savings opportunities for the Authority it is important to try to ensure that simply withdrawing services currently provided by the Authority does not load additional costs onto one or more of the District Councils. For example, closure of a Household Waste Recycling Centre (HWRC) in one District may save the Authority in terms of the costs paid under the contract (after potential breakage and redundancy payments). This would have a benefit of a small reduction in costs for all districts. However, the waste treated by that HWRC would not disappear; it would be likely to go in large part into other HWRCs, offsetting the saving. In the case of the District where the closure is proposed there would be likely to be an increase in the residual tonnages collected as s proportion of that which was formerly taken to the HWRC would end up in the residual bin. Ultimately that would lead to an increase in the tonnage based costs for that District, which would be likely to offset their share of the savings from the closure. So in the District where an HWRC is closed, there would be a reduction in service and for that District a likely increase in overall costs. This presents a significant dilemma in considering service changes and can only be considered after fullest political consultation with Districts and MRWA Members.

8.5 Each time the savings from services are considered the Authority must take account of the knock on effect on both waste flows, which do not go away, and on any additional direct costs on District Councils, which do not fall in the equitable way that the Levy was designed to.

8.6 The Authority may consider a number of Levy options starting at the full 11.5% increase scenario. These are set out in the tables at Appendix 4, and the final proposed levy level at 9% is shown in the table below:

9.0% Levy Increase	2017/18 Levy	Proposed Levy 2018/19	Increase/ Decrease (-)	% Increase/ Decrease
Knowsley	7,124,039	7,359,636	235,597	3.3
Liverpool	22,771,726	25,033,173	2,261,447	9.9
St Helens	7,660,761	8,571,035	910,274	11.9
Sefton	12,661,305	14,430,056	1,768,752	14.0
Wirral	15,373,268	16,100,394	727,126	4.7
	65,591,099	71,494,294	5,903,196	9.0

8.7 The tables in the Appendix show that the Authority has been able to set out a range of options for reducing the gap between the Levy and the level of expenditure. It is proposed that the Authority sets the overall Levy increase for 2018-19 at 9% - which is 2.5% lower than had been expected (a reduction of over £1.7M).

8.8 The effect of reducing the levy to 9% has a knock on effect on the future year's Levy plans, as shown in the table below

Levy projections at 9%, 7% and 2.8%

	Budget 2018/19 £M	Budget 2019-20 £M	Budget 2020/21 £M
Projected cost of service	72.7	76.5	78.6
Levy – projection	71.4	76.5	78.6
Reserve contribution	**1.3**	**0**	**0**
Net expenditure position	**0**	**0**	**0**
Levy increase	**9%**	**7%**	**2.8%**

8.9 The Levy projection at 9% brings the future levy projection up from 5.8% (as set out last year) to nearer to 7% (followed by 2.8%). This projection does not allow for future potential savings arising from decisions arising from savings plans from the Strategic Review to be realised. Should the potential savings arising from the strategic review be realised then it is probable that the projected 7% may be lower and that there will also be a reduction in the 2.8% shown for 2020-21.

8.10 If this proposal is taken forward then implementing the outcome of the Strategic Review will become even more significant as it will provide some way of mitigating the impacts of the Levy in future years.

8.11 Members of the Authority have to consider their fiduciary duty to Merseyside as a whole in setting the budget and the Levy. They may also consider the potential for savings that the Strategic Review will bring. In order to set a balanced budget for 2018-19 and the prospect of a balanced budget going forward, the minimum level of Levy increase Members should consider is 9% in overall terms.

8.12 There may be further scope for some additional savings to be identified through reviewing services and where they are provided, but that does not address the underlying issue, that by far the largest part of the Authority's costs come from the amount of waste generated, which is outside the Authority's control. Significant savings are unlikely to be achievable without a very significant drop in the amount of waste delivered for treatment. Simply withdrawing services is unlikely to have the required effect as in most cases the waste does not disappear, it will have to be treated at some point and can add significantly to the costs of each District Council in an inequitable way.

8.13 The Authority will monitor the financial position very carefully over the next year to ensure it mitigates the potential for Levy increases. 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 Authority has proposed a modest capital programme for 2018-19 as the outcome of the Strategic Review may require revisions to the asset planning of the Authority.

9.2 Although there is no other significant capital programme at this stage, Members are requested to be mindful of the need to continue to review the Estate, to consider whether it remains Fit for Purpose and meets all the health and safety and operational requirements we are obliged to meet. A survey of key parts of the Estate is under way to establish whether there are any significant issues. Should any significant issues be identified then there is a prospect that officers will have to return to Members setting out the issues and seeking permission for a Capital Programme development to be considered in future, that capital programme would have to be funded through the Prudential Borrowing framework as internal funds are no longer available.

10. Budget 2018-19

10.1 The Authority is asked to set a revenue budget of £72,749,107.

11. Levy 2018-19

11.1 The Levy for 2018-19 proposals is as follows:

- a 9% increase – setting the Levy at £71,494,294

11.2 Once again for 2017-18 the Levy is supported by a ‘cushioning’ contribution from General Fund balances: (£1.255M).

11.3 Members are recommended to accept the 9% increase option at this stage. Members will also need to accept that the overall Levy, expenditure, and reserves will need to be equalised properly in future years.

REVENUE BUDGET 2018-19

1. Introduction

1.1 The Authority is required by statute to set its Levy for 2017-18 by 15th February 2018. 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 part of the report.

1.4 The General Fund is available to support the Authority's budget over the medium term. The Authority must maintain a reserve to provide security against unforeseen events. Under the budget proposal for 2017-18 and beyond the Authority will have to consider the level of General Fund it is able to maintain in the face of significant pressure on the Levy, savings and transferring funds remaining in the Capital Fund (an earmarked reserve) to supplement the General Fund.

1.5 The budget proposals, this year reflect that there are no longer reserves to provide significant cushioning to fund the large gap between the Authority's budget and the Levy. The Authority has confirmed to District Councils that at some point the proposed Levy would need to catch up with the Authority's budgeted costs, this year that point has been reached. Whilst the Authority has done all it can do to mitigate costs and therefore keep the proposed rise down to 9% rather than 11.5% (saving over £1.7M) there is little more that can be achieved.

1.6 Members are being asked to consider this issue in this budget round. 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.

1.7 The Authority is also likely to have to consider whether proposed levy rises in this budget round and in the future will enable the Levy income to catch up with the Authority's budgeted costs. Without taking steps to equalise the Levy and expenditure in this budget and forward in the medium term there is a very real prospect, that the Authority's financial position would be untenable.

1.8 The robustness of the Authority's budget for 2017-18 is considered 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.

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

2. Revised Budget 2017-18

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 2017-18 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £74,760,361 (net of contributions for additional costs) which is an increase of £355,395 from the Original Revenue Budget for 2017-18 (Column 1 of the respective pages of Appendix 1). This increase has meant that the Treasurer proposes making the following additional adjustments to balances and reserves.

	£000
General Fund – increased contribution from the Fund to support revenue	355

2.3 The initial balance on the General Fund is forecast to be at £2.470M at 31 March 2018. These are the total resources available to the Authority at the end of 2017-18.

2.4 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2016-17 are as follows:

	£000
Establishment – savings arising from vacancy management, contractor savings and general budget savings, with some costs transferred to other budgets.	-98
Contracts – the contracts budgets are over £65M and the very small overspend represents just over a quarter of a % compared with the overall budget. There have been savings arising from the commissioning of the RRC taking longer than expected, which are offset by interim contract costs and some additional transport costs.	+174
Closed landfill – savings from efficiencies in managing costs at the landfill sites	-15

Rents, rates, depreciation – the expected reduction in rates arising from the rates revaluation were offset after the budget by the transitional arrangements which were subsequently announced	+132
Recycling credit payments – lower than expected for most District Councils	-85
Strategy & resources – largely from the transfer of budget to the behavioural change programme, also recognising that the Authority is unlikely to commence the review of the joint waste strategy in this year.	-303
Behavioural Change - identified separately for the first time, taken from existing budgets elsewhere	+414
Permit scheme – identified separately for the first time, taken from existing budgets elsewhere	+21
Interest – increase in net cost of interest	+115
TOTAL NET INCREASE	+355

3. Proposed Budget 2018-19

3.1 The proposed budget for 2018-19 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £72,749,107 (before the proposed General Fund contribution of £1,254,809). The General Fund Contribution proposed for 2018-19 is significantly lower than in the previous year as the General Fund is depleted. The 'gap' in the funding for 2018-19 is proposed to be made up with a 9% increase in the Levy on District Councils, taking it from £65,591,099 where it has been for a number of years, to £71,494,294, bringing it closer to the unavoidable costs of the Authority.

3.2 The main reasons for changes to the budget are as follows:

	£000
Establishment – reductions in this budget are due to small savings across the board, offset by the national pay award, initially planned at 1%, there is now an offer of 2%.	-25
Contracts – an increase in the cost of the WMRC related costs of £998k, which allows for inflation and increases in transport costs, has been offset by a small reduction in the planned cost of the RRC £554k, which reflects the income sharing included in the contract.	+445
Closed landfill sites – minor operational savings across the board in the way the sites are managed.	-35
Rents, rates & depreciation – reflecting the slowing down of savings arising from the implementation of transitional arrangements following the previous year's revaluation	+126
Recycling credits – a small increase in	+59

demand from District Councils	
Strategy and resources – changes reflecting the transfer to the new behavioural change programme – balance remaining to provide the opportunity to commence a revision to the joint waste strategy	-278
Behavioural Change - bringing together budgets from across the Authority to deliver a focussed programme with the aim of delivering measurable changes in behaviours.	+414
Permit scheme – identifying the cost of the administration of the permit scheme separately – taken from existing budgets	+22
Interest – increase in interest payable by the Authority	+115
Dividend – available as a one-off contribution from MWHL	-2,500
Total	-1,654

3.3 The proposed Revenue Budget for 2017-18 has been prepared on the basis of the following assumptions:

- No inflation unless contractually unavoidable
- 2% pay inflation increase – as offered through national pay bargaining
- 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 2018 as follows:

	£M
General reserve	2.470
Capital receipts reserve	0.055

3.5 The General Fund reserve has been applied for the following purposes in 2017-18:

- Support for Revenue expenditure (Levy support) £9.169M

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 an 9% increase in the Levy for 2018-19, and looking ahead into the following two years it is expected that by the end of 2018-19 the General Fund will be established to a level will be regarded as just about adequate assuming a combination of savings and levy increases is approved.

3.7 While the planned balances for 2018-19 remain at just about adequate levels under the proposals considered earlier in this report, albeit at the lower end of prudent; it will be important to retain those very low balances into the future otherwise the Authority's financial position on those years is likely to become much more precarious.

3.8 If the proposals for the Levy for 2018-19 are approved the Authority will be left with £1.2M of balances at the end of 2018-19, this is at the lower end of the minimum required for the prudent financial management of the Authority.

3.9 The Authority will be at risk if it fails to maintain even this low level of reserves as it will need to continue to be able to ensure itself against unexpected events and actions, including a growth in waste arisings. After the scant reserves were utilised the financial impact of any such growth would then only have a single recourse; the additional costs would be passed on to the District Councils, in an unplanned and un-cushioned way in the next Levy. That prospect does not appear to be prudent and has little to recommend it; but even a small reserve is better than having no reserves which the Authority has been asked to consider in recent years..

Risks

Risk	Potential impact	Risk category
Tonnage increases	Additional costs arising from either the RRC or the WMRC, may have a significant impact on the financial resilience of the Authority.	Medium
Cost increases	Additional costs arising from either the RRC or the WMRC, may have a significant impact on the financial resilience of the Authority.	Low
Recyclate market changes	The tightening of the rules for importing recyclates into China does not have a significant impact on the Authority in the short to medium term, the longer toerm impact on the market and value of recyclates more broadly is unclear at present.	Medium

4. Capital programme

4.1 In considering ways that the Authority should manage access to services an issue has been highlighted that involves access to HWRCs. Normal household waste can be legitimately received at any of the HWRCs delivered by members of the public, usually by car or by a larger vehicle accompanied by a permit. There is some evidence to suggest that commercial traders may be accessing some of the sites to deliver non-household waste, this is not a legitimate use of the sites. At present the entrances to the sites mean that it is difficult for the contractor's staff to manage these vehicles so that the legitimacy of the waste delivery can be assessed before they come onto the site. MRWA have been working with the contractor to design a change to the site entrance which may enable the vehicles to be isolated and the waste assessed before they arrive on site. It is proposed that a pilot scheme be developed at a particular site, with a view to rolling out the approach during next year and over the subsequent three years if the scheme proves to be a success. The scheme is estimated to cost up to £40k at the first site. A contingent sum of up to £200k is therefore proposed to be included in the capital programme for 2018-19 to allow the scheme to be developed and, if successful, for an initial roll-out across more HWRCs. Members will receive full reports in advance of any detailed proposed works.

4.2 It may also be prudent to propose a contingency sum of £300k to be included in an outline capital programme, in the event that proposals made under the Strategic Review implementation plan require additional capital works. Should that be the case Members views will be sought in advance of any decisions to proceed.

4.3 The Authority is working with our partners in the Joint Venture that is Bidston Methane Ltd. , to reconfigure the gas management system and replace an existing electricity generator with a as flare as the amount of gas produced continues to diminish. The cost of the replacement is likely to be some £40k. This can be funded from a capital receipt that was received earlier in the year from the sale of the In Vessel Composting equipment that was not being used form any Authority purposes which raised £55k.

4.4 Any capital programme spending requirements in the future will need to be funded from an extension of the Authority's Prudential Borrowing. The impact of the existing prudential borrowing is set out in an annex to the Treasury Management Strategy Statement 2018/2019 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 each year.

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:

19 April 2018	18 October 2018
24 May 2018	22 November 2018
5 July 2018	3 January 2019
9 August 2018	14 February 2019
13 September 2018	14 March 2019

5.3 The Levy proposal is shown in the table below.

Under the existing Mechanism with a 9% increase

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. For each of the constituent Districts there are changes in the levy demand, as calculated through the levy apportionment methodology.

2018/19 LEVY SET AT 9% INCREASE WITH CURRENT MECHANISM VS 2017/18

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	2017/18 Levy	Levy Mechanism 2018/19	Increase/ Decrease (-)	% Increase/ Decrease
Knowsley	7,124,039	7,359,635	+235,597	+3.3
Liverpool	22,771,726	25,033,173	+2,261,447	+9.9
St Helens	7,660,761	8,571,035	+910,274	+11.9
Sefton	12,661,305	14,430,056	+1,768,752	+14.0
Wirral	15,373,268	16,100,394	+727,127	+4.7
	65,591,099	71,494,294	+5,903,196	+9.0

6. Risk Implications

6.1 The Authority is managing the budget and has identified reductions worth over £1.7M. However, the vast majority of the Authority's costs are waste tonnage related, and there is no significant reduction in the tonnes the Authority is required to process. At a time when the financial pressure on constituent District Councils is severe, it has been incumbent upon the Authority to mitigate the impact of the Levy as much as possible. However, the Authority's scope for mitigating those costs, in the face of no reductions in service demands, and with no significant General Funds remaining, has been exhausted. The Authority needs to increase the Levy to start to close the gap between costs and resources. For 2018-19 this is possible by approving a 9% increase in the Levy, rather than the expected 11.5% increase.

6.2 In the medium term there will remain a budget gap that requires closing, probably through a combination of cost reduction where possible, seeking to identify income from the contracts and increases in the Levy going forward.

6.3 In planning for savings the Authority will also take a risk, particularly where savings proposals involve reducing or removing services, and especially if those are services based in HWRCs that the full impact of savings may not be achieved in the year. This could be a particular risk where service reductions require consultation to take place and will depend to some extent upon the outcome of that consultation.

7. HR Implications

7.1 There are no HR implications in this report

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 2018-19 which ensures there is sufficient income and resource to cover budgeted expenditure for that year, which it is required to do. Looking into the future decisions about how that will continue to be achieved will need to be made.

11. Conclusion

11.1 The Authority is required to establish and approve a budget for 2018-19 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.

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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.