AUTHORITY BUDGET 2019-20
WDA/02/19

Recommendation

That the Authority:

1. approves the revised budget for 2018-19;

2. approves the revenue budget for 2019-20;

3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £74,997,511;

4. authorises the Levy to be made on the constituent District Councils for 2019-20; 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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AUTHORITY BUDGET 2019-20
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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) came into full operation in September 2017 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 recovery 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 Resource Recovery Contract (RRC) has enabled the Authority to move to disposal of most of Merseyside's residual waste through an Energy from Waste plant. The contract with Merseyside Energy Recovery Ltd (MERL) provides for 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 During the year there have been some operational issues both because of planned maintenance schedules which require a full plant closedown, as well as one off technical issues that have led to the need for unscheduled adjustments to disposal plans. In either case the contract makes provision for the Authority's waste to be managed through the contractor's contingency arrangements.

3.3 Where there has been a need for the contractor to make contingency arrangements they have worked with the Authority and with the main contractor for the WMRC contract to secure such additional transport as they require to meet their contractual obligations. While there have been a number of challenges during this year both the contractors have risen to the challenges to ensure that Merseyside's residual waste continues to be managed effectively.

3.4 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. This is particularly the case where the amount of waste delivered to the Authority by District Councils is not falling. Income opportunities may arise for the Authority if residual waste dealt with under the contract falls significantly, however, those opportunities may not be realised if residual waste arising remains constant (or grows).The RRC overall has been recognised independently as a very good environmental and financial deal for Merseyside and Halton, but some of the opportunities it contains are yet to be fully realised.

3.5 At the same time the WMRC contract has continued to operate successfully. The HWRC network provides opportunities for recycling a household waste and the proportion of waste recycled through the network remains at nearly 70%. There have been some issues with non-household waste being delivered traders and at the South Sefton HWRC a review was undertaken to temporarily change the way that access to the site was managed. The amount of non-household waste being delivered by traders at South Sefton was significantly lower during the period when the temporary arrangements were in place. The wider the wider impacts of the South Sefton trial are subject to ongoing assessment.

3.6 Elsewhere in the WMRC as noted above the contractor has worked flexibly with the Authority and the RRC contractor to ensure that waste flows to the required disposal points, which has been challenging where contingency disposal points have been used. While this has been achieved it has required the Authority's Contracts team to liaise closely with both contractors. A protocol for ensuring these contingency arrangements can be put in place efficiently when needed has been developed and will be used to manage the arrangements going forwards.

3.7 The WMRC also provides for the Materials Recovery Facilities (MRFs) that are used to separate and sort the deliveries of dry recyclable materials from District Councils. While the MRFs (at Bidston and Gilmoss) are generally efficient the contractor has reported an increase in the levels of contamination in the waste being delivered, and it no longer has an outlet for processing this residual waste as the company went out of business. The effect of an increase in contamination is that the MRF efficiency rates reduce and the costs increase as the contaminant has to be separated and transferred to the RRC contract for treatment as residual waste. The Authority is committed to working with the District Councils to reduce and minimise the amount of contaminated waste that is delivered for recycling.

4. External factors

4.1 The general economic climate and the Government's spending reviews mean 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 continue to be made about the shape and size of local government services in the future.

4.2 In 2018-19 Merseyside Councils continued to face very significant savings targets, and for 2019-20 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.

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 The Authority worked with the Districts to minimise the impact of the Levy by taking one-off monies from the General Fund to subsidise the Levy on Districts. This practice is not sustainable in the longer term and in a series of requests to Districts modest requests to raise the level of the Levy were made over time. Districts were advised that if those modest rises were not possible then there would come a point where a cliff-edge raise would be required. That cliff edge was reached in last year's budget and a 9% increase in the overall Levy was required.

4.5 The Authority's Levy levels have still not caught up with the projected spending as waste arisings are not yet falling and there has been a slow-down in the rate of recycling across the piece.

4.6 The significant levy increase of 2018-19 at 9% was not enough to close the gap and in February 2018 the projection was that there would be a need for a 7% increase in the Levy for 2019-20 to continue the 'catch-up process as there were insufficient General funds available to significantly cushion the need to increase the Levy. While the Levy demand has been held back from this prospective level there is still a need for an increase in the Levy for 2019-20 and beyond.

4.7 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 2019-20 was very limited and that they should continue to plan for an overall 7% increase.

4.8 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.

4.9 The Strategic Review of waste collection and disposal confirmed 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 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 The Authority was asked to look at whether a saving of up to £500k could be achieved from the way it carries out its disposal function. Officers have consulted widely on measures which may contribute towards achieving a saving and this process is expected to accelerate during 2019-20.

4.12 There are a number of ways of potentially achieving the prospective £500k saving, but each of them has some risk and carries the potential for local political impacts (for example the risk of additional residual collection tonnages, or localised fly tipping), 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 2019-20, these are more likely to be achievable for 2020-21 should they be requested.

4.13 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.

4.14 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.

4.15 More recently the Government has published its Waste and Resources Strategy for England. This strategy includes medium and longer term aspirations for changing the way that waste is collected managed and treated in England. The strategy contains a number of objectives and aspirations that will have an impact on collection and disposal arrangements across England and in Merseyside and Halton. The Authority's Chief Executive is working with partners across Merseyside to understand the potential impacts of the Strategy for collection and disposal both immediately and into the longer term.

4.16 At this stage it is not expected that for the 2019-20 budget there will be a significant change from the Strategy, but moving forward into future years it is likely to impact on both collection and disposal. For example there will be a consultation on expanding food waste collections which will have an impact on collection frequency and costs and which will also impact on disposal, where treating food waste is generally a lower cost than treating residual waste.

4.17 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 7% for 2019-20. The Authority has been reviewing costs in some detail, has pushed on the potential for income as hard as is reasonable. The effect of this has enabled the Authority to propose taking 2.1% off the headline levy increase bringing the Levy increase down from 7% for 2019-20 to 4.9%; a reduction of £1.5M.

5. <u>The Budget</u>

5.1 The revised estimates for 2018-19 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 2018-19 is likely to be £72.114M which is slightly lower than originally agreed and requires less support from the General Fund by £647k.

5.2 The small decrease has arisen from a combination of very small spending changes compared with planned budgets. The Contracts budget is expected to be overspent by £1.260M, or just under 2 percent on an overall budget of £65.1M. This will be a significant achievement in the face of the transition to the new contract and full operation of the main RRC. Elsewhere underspending on recycling credits £503k, behavioural change £100k and net interest costs £88k, are offset by a small increase in administration costs. The technical capital accounting required for the introduction of the RRC increases the charges for depreciation significantly, but this is offset by a technical reversal of the charges from the Capital Adjustment Account that more than offsets the change (Net effect £1.364M).

5.3 The overall effect of this is that the planned level of support from the General Fund balance for 2019-18 can be decreased from £1.267M down to £0.619M. This leaves the Authority with balances that are relatively low (£3.9M) but which still provide some capacity 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 2019-20 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 In terms of securing a share of income from the RRC the Authority relies on an increasing electricity price, which has not yet developed. The income is also dependent upon the amount of third party waste capacity available at the plant to sell and to generate a share of income from. At present the Authority does not have significant opportunity to gain from third party waste as the amount of waste being delivered and planned to be delivered in the next year is not reducing. Only a significant reduction in the waste delivered by Districts for the Authority to deliver to the RRC will give scope for selling unused capacity in the EfW plant to generate additional income.

5.7 Over the life of the contract, the prospects of the unitary charge being held at a relatively steady cost, despite inflation, is realistic. If the amount of waste does not reduce significantly then the way the contract is structured, over time a growing amount of waste will charged to the Authority into the lower of the price bands of the contract, keeping the average price stable (after inflation).If there are reductions in waste sent then the Authority's costs will reduce, and there will be opportunities for third party sales.

5.8 Where 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.

5.9 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.

5.10 There may also be requests arising from the Strategic Review to achieve savings. 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 compensate the contractor and consider reconfiguring other sites where additional demands may be made for services displaced from the sites that may close.

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 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 current Levy mechanism is agreed by consensus and divides the levy among the Councils as follows:

(Tonnage based costs)
+ (Recycling Credit Costs)
+ (Population based costs)
+ or – (abatement)
= TOTAL COST OF LEVY

6.3 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 2018-19 the following amounts were provided:

	£
Amount included in Levy via tonnages	**(4,984,673)**
MWDA Expenditure on Recycling Credits	**4,984,673**

6.4 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.

6.5 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.

6.6 For 2019-20, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £4.611M. The net effect on Districts overall would be zero, however, as the Authority would cease to pay out the same sum £4.611M 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 significant 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 was able to hold to 9%).

7.3 The Authority's approach of simply utilising reserves has now become largely unsustainable as the Authority's reserves have been depleted so that there is significantly less scope for providing support. The gap between Levy and the costs of dealing with the amount of tonnes delivered by District Councils and households still needs to be closed. Tonnages are not reducing and so the need to increase the Levy is imperative. Significant use of balances to cushion expenditure is no longer an option as there are insufficient balances available. Despite a Levy increase of 9% in 2018-19, a further increase of 4.9% for 2019-20 (held back from an expected 7%) and 3.8% the year afterwards are required to close the gap (followed by 3.4% 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 the 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 has been below 1% a year and is expected to be fairly stable for the next two years. The Authority is actively managing its contracts and its costs.

8. Budget options

8.1 Over a period of eight years the Authority delivered initially significant Levy reductions and thereafter maintained a broadly neutral overall Levy at a time when its cost base continued to be significantly higher than the Levy. This was 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 2018-19 despite a number of earlier requests for modest levy increases the gap between the Authority's likely expenditure and the level of the income from the Levy was likely to be significant and required a cliff edge Levy increase of 9% to start to address the issue. This gap will remain in 2019-20, and 2020-21, but the level of reserves available to support the Levy that year will be minimal, meaning that a Levy rise of 4.9% will be required in 2019-20 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, changes to services provided at a Household Waste Recycling Centre (HWRC) in one District may save the Authority in terms of the costs paid under the contract (after potential contract breakage and potential redundancy payments). This may have a benefit of a small reduction in costs for all districts.

8.5 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 change is proposed there would be likely to be an increase in the residual tonnages collected as a 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 HWRC services are changed, 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.

8.6 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.

8.7 The Authority may consider a number of Levy options starting at the full 7% increase scenario. These are set out in the tables at Appendix 4, and the final proposed levy level at 4.9% is shown in the table below:

4.9% Levy Increase - 2019/20 LEVY PER DISTRICT COMPARED TO 2018/19 LEVY

	2018/19 Levy	Proposed Levy 2019/20	Increase/ Decrease (-)	% Increase/ Decrease
Knowsley	7,359,636	8,103,868	744,232	10.1
Liverpool	25,033,173	25,685,896	652,723	2.6
St Helens	8,571,035	8,583,298	12,263	0.1
Sefton	14,430,056	15,442,157	1,012,101	7.0
Wirral	16,100,394	17,182,292	1,081,898	6.7
	71,494,294	74,997,511	3,503,217	4.9

8.8 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 4.9% - which is 2.1% lower than had been expected (a reduction of £1.5M).

8.9 The effect of reducing the levy to 4.9% has a knock on effect on the future year's Levy plans, as shown in the table below:

Levy projections at 4.9%, 4.4% and 3.3%

	Budget 2019/20 £M	**Budget 2020-21 £M**	**Budget 2021/22 £M**
Projected cost of service	76.3	78.2	80.8
Levy – projection	74.9	78.2	80.8
Reserve contribution	**1.4**	**0**	**0**
Net expenditure position	**0**	**0**	**0**
Levy increase	**4.9%**	**4.4%**	**3.3%**

8.10 The Levy projection at 4.9% brings the future levy projection up from 2.8% (as set out last year) to nearer to 4.4% (followed by 3.3%). 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.

8.11 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.

8.12 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 2019-20 and the prospect of a balanced budget going forward, the minimum level of Levy increase Members should consider is 4.9% in overall terms.

8.13 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.

8.14 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 2019-20 as the outcome of the Strategic Review and service reviews may require revisions to the asset planning of the Authority. The proposed programme allows for developments to be made to Authority sites and assets should the

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. 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.

9.3 All aspects of the forward capital programme will have to be funded through the Prudential Borrowing framework as internal funds are no longer available.

10. Budget 2018-20

10.1 The Authority is asked to set a revenue budget of £76,393,095.

11. Levy 2019-20

11.1 The Levy for 2019-20 proposals is as follows:

- a 4.9% increase – setting the Levy at £74,997,511

11.2 Once again for 2019-20 the Levy is supported by a ‘cushioning’ contribution from General Fund balances: (£1.396M).

11.3 Members are recommended to accept the 4.9% increase option at this stage. Members will also need to accept that the overall Levy, expenditure, and reserves will need to continue to be equalised and in balance for future years.

REVENUE BUDGET 2019-20

1. Introduction

1.1 The Authority is required by statute to set its Levy for 2019-20 by 15th February 2019. 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 2019-20 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 sufficient reserves to provide significant cushioning to fund a large gap between the Authority's budget and the Levy. The Authority confirms that the Levy needs to continue to catch up with the Authority's budgeted costs. Whilst the Authority has done all it can do to mitigate costs and therefore keep the proposed rise down to 4.9% rather than 7% (saving £1.5M) 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 significantly 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 continuing to take steps to equalise the Levy and expenditure in this budget and forward in the medium term there is a prospect, that the Authority's financial position would be untenable.

1.8 The robustness of the Authority's budget for 2019-20 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 2018-19

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 Executive Management Team 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 2018-19 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £72,113,739 (net of contributions for additional costs) which is a decrease of £647,571 from the Original Revenue Budget for 2018-19 (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 – decreased contribution from the Fund to support revenue	648

2.3 The initial balance on the General Fund is forecast to be at £3.919M at 31 March 2019. These are the total resources available to the Authority at the end of 2018-19.

2.4 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2018-19 are as follows:

	£000
Establishment – increased cost arising from additional employee costs, premises and supplies costs, contractor savings but with some costs transferred from a separate budget for the Community Fund into this budget (£115k).	+145
Contracts – the original contracts budgets are over £65M and the overspend represents just over 1.9% compared with the overall budget. The WMRC has performed well and is projected at this stage to underspend (£838k). This is offset by the additional cost of the RRC (£2,072k) which is largely a result of the reality that anticipated third party income as advised by the contractor last year has not materialised, because the Authority's waste arisings and changes in the waste recycling market have not left scope for selling additional capacity in the year to generate additional income; where the electricity market has not supported the contractors guaranteed income the Authority's share of third party income has been limited.	+1,260
Closed landfill – savings from efficiencies in managing costs at the landfill sites are offset by small budget transfers into this area for tools and equipment (£11k) and the budget for the Environmental Management System audit and accreditation cost (£5k).	+7
Rents, rates, depreciation – there is a reduction in rent (£6k) and a reduction in rates (£38k) offset by a significant increase in depreciation (£9,829k) – this is part of the technical accounting changes in respect of the RRC assets that could not	+9,791

be anticipated at last year's budget – it is offset by technical capital accounting adjustments set out later.	
Recycling credit payments – lower than expected for most District Councils (Liverpool +£32k; Wirral -£35k; Sefton -£79k; Knowsley -£245k; St Helens -£180k)	-507
Strategy & resources – no change anticipated	0
Behavioural Change – change due to budget allocated elsewhere	-100
Permit scheme – no change anticipated	0
Interest – reduction in net cost of interest	-88
Dividend – one off contribution from the wholly owned company (no change)	0
Capital accounting – adjustment in respect of RRC – which could not be anticipated in last year's budget – offsetting increase in depreciation above	-11,155
TOTAL NET DECREASE	-647

3. Proposed Budget 2019-20

3.1 The proposed budget for 2019-20 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £76,393,095 (before the proposed General Fund contribution of £1,395,584). The General Fund Contribution proposed for 2019-20 is possible because there was an underspend in 2017-18. This has allowed the use of a reasonable amount to go towards cushioning the anticipated levy increase from 7% down to 4.9%. The ‘gap’ in the funding for 2019-20 is proposed to be made up with a 4.9% increase in the Levy on District Councils, taking it from £71,494,292, to £74,997,511, bringing it closer to the actual budgeted costs of the Authority.

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

	£000
Establishment – the increase in this budget is due to staffing cost changes which reflect increments, the pay award at 2% and the full cost of re-grading where appropriate, elsewhere the Community Fund budget at £115k has been re-allocated to this budget heading, these cost increases are offset by smaller savings on transport (£7k) and supplies (£10k).	+191
Contracts – there is a small increase in the cost of the WMRC related costs of (+£155k), which allows for inflation and increases in transport costs. The income from trade waste is expected to reduce by (which increase cost by +£77k). This is offset by an increase in the planned cost of the RRC £554k, which reflects the amount of waste anticipated to flow through the contract (+£2,569), which restricts the opportunity for reducing the cost as there is limited scope for third party income sales.	+2,800
Closed landfill sites – there are anticipated increases in premises related costs (+£14k), additional budgets have	+83

been included in this heading for the first full year, (including Tools & equipment +£12k, EMS audit +3k, the cost of the Bidston Methane succession +32k and the costs of asset valuations +£20k).	
Rents, rates & depreciation – rent (+£2k) and rates (-£3k) offset each other. The larger change here is the inclusion of a depreciation charge in respect of the RRC asset (+£9,829k) which is offset by technical capital accounting adjustments set out later.	+9,829
Recycling credits – lower than prior year for most District Councils (Liverpool +£65k; Wirral -£11k; Sefton -£44k; Knowsley -£233k; St Helens -£148k)	-373
Strategy and resources – no change anticipated	0
Behavioural Change – reflecting the transfer of the Community Fund budget	-100
Permit scheme – no significant change anticipated	+1
Interest – decrease in interest payable by the Authority	-89
Dividend – not available for 2019-20	+2,500
Capital accounting – adjustment in respect of RRC – offsetting increase in depreciation above	-11,210
Levy change – estimated at 4.9% increase overall	-3,503
TOTAL NET CHANGE	129

3.3 The proposed Revenue Budget for 2019-20 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 2019 as follows:

	£M
General reserve	3.919
Capital receipts reserve	0.055

3.5 The General Fund reserve has been applied for the following purposes in 2018-19:

- Support for Revenue expenditure (Levy support) £0.620M

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 4.9% increase in the Levy for 2019-20, and looking ahead into the following two years it is expected that by the end of 2019-20 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 2019-20 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 2019-20 are approved the Authority will be left with £2.5M of balances at the end of 2019-20, 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 did not have a significant impact on the Authority in the short term in the medium to longer term volatility of recyclate market and value of recyclates more broadly is unclear at present.	Medium

4. Capital programme

4.1 Alongside partners in District Councils the Authority has been considering options for implementing the potential outcomes of the Strategic Review. In addition the Authority has been considering the need to manage access at the HWRC network. These matters may need to be developed into more detailed plans over the short to medium term. An amount of £550k has been included in the capital programme to allow for these developments to take place should the opportunity arise. Where this happens a report will be made to Members seeking approval for the plans prior to any development taking place

4.2 The majority of 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 2019/2020 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:

18 April 2019	17 October 2019
23 May 2019	21 November 2019
4 July 2019	9 January 2020
8 August 2019	13 February 2020
12 September 2019	12 March 2020

5.3 The Levy proposal is shown in the table below.

Under the existing Mechanism with a 4.9% 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.

4.9% Levy Increase - 2019/20 LEVY PER DISTRICT COMPARED TO 2018/19 LEVY

	2018/19 Levy	Proposed Levy 2019/20	Increase/ Decrease (-)	% Increase/ Decrease
Knowsley	7,359,636	8,103,868	744,232	10.1
Liverpool	25,033,173	25,685,896	652,723	2.6
St Helens	8,571,035	8,583,298	12,263	0.1
Sefton	14,430,056	15,442,157	1,012,101	7.0
Wirral	16,100,394	17,182,292	1,081,898	6.7
	71,494,294	74,997,511	3,503,217	4.9

Risk Implications

5.5 The Authority is managing the budget and has identified cost saving worth over £1.5M. 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 continue to increase the Levy to ensure it is able to close the gap between costs and resources. For 2019-20 this is possible by approving a 4.9% increase in the Levy, rather than the expected 7% increase.

5.6 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 further increases in the Levy going forward.

5.7 In planning for savings the Authority will also take a risk, particularly where savings proposals involve reducing or removing services, 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.

6. HR Implications

6.1 There are no HR implications in this report

7. Environmental Implications

7.1 There are no new environmental implications arising from this report.

8. Financial Implications

8.1 The financial implications run throughout this report.

9. Legal Implications

9.1 The Authority is setting a budget for 2019-20 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.

10. Conclusion

10.1 The Authority is required to establish and approve a budget for 2019-20 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.