AUTHORITY BUDGET 2020-21
WDA/01/20

Recommendation

That the Authority:

1. approves the revised budget for 2019-20;

2. approves the revenue budget for 2020-21;

3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £77,547,428;

4. authorises the Levy to be made on the constituent District Councils for 2020-21; 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 2020-21
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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) has been fully operational since 2017 and deals with all the Authority's residual waste. The contract is operated on behalf of the Authority by Merseyside Energy Recovery Limited (MERL) via a Rail Transfer Loading Station in Knowsley where residual waste is loaded onto trains and transferred to an Energy from Waste plant at Wilton in Redcar, where it is used to create heat and power.

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 enable the Authority to manage the recycling, treatment and disposal of Merseyside and Halton's household waste. In addition the Authority also leads for the Strategic Waste Partnership on waste minimisation and education initiatives, as well as managing historic closed landfill site liabilities.

3. Contract arrangements

3.1 The RRC has enabled the Authority to move to disposal of most of Merseyside's residual waste through an Energy from Waste (EfW) plant. A small amount is still disposed of in landfill, for example, when the EfW is closed for maintenance, but both MRWA and the contractor are committed to seeking ways to avoid that continuing. The contract takes all the residual waste delivered by the constituent District Councils and Halton Council for disposal.

3.2 The contract is in a stable operational phase; the contractor and the Authority have a shared understanding of how the contract operates and are able to manage planned closedowns and working arrangements effectively. The contractor is in a position to take the Authority's waste and where there is available capacity in the EfW plant is able to divert third party waste into the plant to generate heat and power. The additional heat and power generates an income stream for the contractor and MRWA can benefit from a share of that income.

3.3 In order to enable the contractor to generate significant additional income for the contract (and for sharing) the Merseyside and Halton Councils residual waste tonnes would need to start to decline, quite significantly. That reduction in waste arising would bring lower overall costs as well as creating additional opportunities for additional third party income sharing. 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.

3.4 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%. The introduction of improved access controls at South Sefton HWRC last year was successful way in reducing the amount of non-household waste that was brought on to the HWRC site. As a consequence and following a review of the scheme there have been additional access controls introduced at a small number of sites in the current year including: Rainhill, Clatterbridge and Bidston. It is anticipated that the additional measures will contribute to ensuring the sites are used for Household rather than commercial waste. In the medium term this should reduce the overall amount of waste being brought to Merseyside's HWRCs and may mitigate the cost of providing the service.

3.5 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 continues to report higher than hoped for levels of contamination in the waste being delivered.

3.6 In the past the contractor was able to offer the contaminated MRF waste to a third party processor who would take more recycled materials out. However, as the market for this kind of waste product has declined the contractor no longer has an outlet for processing it. The effect of an increase in contamination is that the MRF efficiency rates reduce and the costs increase as the contaminant is not processed for recyclates but is transferred to the RRC contract for treatment as residual waste. This also impacts on reported levels of recycling. 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. Other 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 uncertainty of Brexit and the General Election has meant that the Government's announcement of this year's spending targets for Councils were later than expected, which makes economic planning more challenging. The Government continues to set difficult 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 2019-20 Merseyside Councils continued to face very significant savings targets, and for 2020-21 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; further significant service re-design is likely to 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 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 a one off cliff edge increase of 9% was required to begin to equalise the Levy with the Authority's underlying expenditure on waste services.

4.5 The Authority's Levy levels were not projected to catch up with spending in the current year, with an additional planned contribution made from a dividend from the wholly owned company, Mersey Waste Holdings Ltd being required to provide a further one off support for the Authority's Levy mitigation. This was accompanied by a 4.9% increase in the Levy (which was less than had been predicted).

4.6 The projection was that there would be a need for a 4.4% increase in the Levy for 2020-21 to continue the 'catch-up' process as there were insufficient General funds available to significantly cushion the need to increase the Levy. Over this Levy and the next it is probable that the Levy and the Authority's expenditure will finally be in balance.

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 2020-21 was very limited and that they should continue to plan for an overall 4.4% 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 provided explanations of the levy mechanism and options for different levy mechanisms, including a version that recognises both difficult to reach housing and deprivation factors that could be considered in developing a different Levy. In looking at this the Authority has sought advice from colleagues in other Councils to provide a more informed view on how these factors could be taken into account, and agreed with the other constituent Councils. This work is ongoing.

4.11 Members are, however, reminded that changes to the levy mechanism do not impact on the costs of the Authority, they simply shift where the burden of paying for the Authority falls.

4.12 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 would be winners and losers from any change to the mechanism and consensus is required to achieve a change; this has proven difficult to achieve in the past.

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 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 was followed up with a new Environment Bill, although that fell when the General Election was called. The new Government has indicated that a new version of the Environment Bill will be introduced as part of the new Parliament.

4.15 As part of a response to the likely requirements of the new Bill, the Authority is working alongside the Collection Authorities via the Senior Officers Working Group (SOWG), to develop a City Region wide approach to Food Waste collections, which the Government has indicated it will be promoting. Introducing a new weekly food waste collection service will contribute to improvements in recycling for the City Region.

4.16 The projected cost of any proposed new weekly service is likely to be significant and, unless the Government changes previously stated views, it will be difficult for Councils to offset those costs by reducing the frequency of residual collections. Securing the necessary funding will be a key to the success of any new food waste collection service. Whilst there may be some reductions in costs for MRWA, as there may be savings in the treatment costs of waste, these will only partly offset the additional costs of the project.

Climate change and zero waste

4.17 At a time when there has been significant emphasis placed on the impact of human activity on the planet the Authority has joined with others in declaring a Climate Emergency, and at the same time proposing that a Zero Waste strategy for 2040 be developed. The timing of the Climate Emergency declaration has allowed the Authority to establish a new Corporate Plan for 2020-21 that sets out some of the challenges and opportunities for responding to the Emergency. It also allows the Authority to consider the budget and the Authority's activities as part of the response to the Climate Emergency.

4.18 In considering the Climate Emergency the Authority's whole budget can be taken into account as the whole of its activity is directed towards achieving zero waste and becoming carbon neutral over time. Whether through the move from Landfill to utilising residual waste to create heat and power with a considerably lower climate impact in the EfW plant; or whether the significant extent of recycling carried out both at the Materials Recycling Facilities (MRFs) and through the network of Household Waste Recycling Centres (HWRCs), the focus of the Authority's activity is already on reducing the impact of Merseyside and Halton's waste on climate change.

4.19 Together with the existing Behavioural Change programme, the Authority's Education activity and the Community Fund, alongside the management of the Closed Landfill sites to mitigate their impact on the local environment, the Authority's activity is already focussed on addressing the key climate change and zero waste activities.

4.20 But there is more that the Authority can do and working alongside the Authority's Members the Chief Executive has identified a number of measures which may be introduced at modest or no cost that have the potential to increase the Authority's impact on the Climate Change Emergency. These include:

- Developing climate metrics, including carbon and climate impact;
- Engaging with the LCR Combined Authority on the Good Business Festival;
- Examining opportunities for ‘swap’ shops at HWRCs;
- Looking at a demonstrator project for Carbon offsetting;
- Reviewing low carbon energy opportunities at facilities operated on behalf of the Authority;
- Reviewing fleet fuels with the main contractors;
- Working with the contractor to end the use of landfill as a contingency;
- Reviewing HWRCs to see if there are more re-use opportunities; and
- Identifying external funding opportunities for waste and carbon reduction.

4.21 In addition, Members of the Authority were consulted on a number of activities that had a modest budget impact (in total £321k), recognising the Levy impact while at the same time demonstrating the Authority’s willingness to take serious actions in response to the declared Climate Emergency; these include:

- Work to develop mattress recycling schemes;
- Investments in home composting;
- Additional behavioural change activity;
- Examining the opportunities for moving from diesel to alternative fuels for the Authority’s vehicles;
- Expanding the opportunities offered through the Community Fund;
- Developing a business case for a re-use co-operative; and
- Further investment in moving towards a Circular Economy.

4.22 Alongside the normal review of activity and budget proposals the Authority has considered the importance of contributing to mitigating the Climate Emergency and moving towards a zero waste strategy. As a key part of the role the Authority has been reviewing all of its budget proposals and considering all the elements of the budget that it can impact upon to defray the effect of the potential levy increase of 4.4% for 2020-21. The Authority has been reviewing costs in some detail and has worked hard to secure the maximum potential for income from the contracts. The effect of this has enabled the Authority to propose taking he headline levy increase down from 4.4% for 2020-21 to 3.4%, a reduction of £750k.

5. The Budget

5.1 The revised estimates for 2019-20 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 Authority net costs for 2019-20 is likely to be £73.716M, which is slightly lower than originally agreed and requires no additional support from the General Fund.

5.2 The decrease in the Authority's net costs has arisen from a combination of factors including the release of funds from the Authority's wholly owned company during the year. The release of a commitment to a provision that was no longer likely to be called on (£884,600) together with an interim dividend of (£1.615M) gave the Authority a one off injection of funds of £2.5M which has contributed to a reduction in the planned contribution from the General Fund (£1.4M).

5.3 For the revised estimate there are generally small spending changes compared with planned budgets. The overall Contracts budget is expected to be underspent by £1.475M, or just under 2.2% on an overall budget of £67.9M. This will be a significant achievement in when the scale of the contracts and the amount of waste taken for treatment is considered. Elsewhere underspending on establishment of £81k, and Closed Landfill sites of £12K was offset by small increases in the cost of Recycling credits £12k, strategy and resources £10k, and Data costs £10k. The technical capital accounting required for the asset revaluations 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 reduced the change (Net effect +£1.359M).

5.4 Taken together with the contributions from the wholly owned company MWHL, the overall effect of this is that the planned level of support from the General Fund balance for 2019-20 can be decreased from £1.396M down to £0. In fact after the impact of all the proposals is taken into account for the Revised Estimate there is the prospect of a contribution to Balances of £1.281M. This leaves the Authority with balances that are still considered to be relatively low (£3.057M), as the Authority has no other sources of funding in the event of unexpected or unplanned events.

5.5 This still provides some capacity for the Authority to plan manage cost growth in the budget in the next year. These reserves can only be used once and even taking account of proposed savings, without normal levy increases going forward, the Authority's financial position is still at risk and may need further modest support in future years.

5.6 The Authority's proposed budget for 2020-21 is presented at a time when the Authority faces significant financial challenges. Waste arisings are not yet reducing in overall terms and the amount of residual waste being managed by the Authority remains well above the amounts guaranteed by the Authority into the main RRC. Until the amount of residual waste is reduced significantly the costs of disposal will not reduce sufficiently to impact on Levy projections. Whilst there is some income being generated by the contractor to share with the Authority, the scale of the income share will only increase if the amount of waste sent for processing is reduced.

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 One of the key challenges facing the Authority and all organisations involved in waste recycling is the reduction in value and uncertainty of pricing that arises from the sale of recycled waste materials. As a consequence of the increasingly stringent requirements for the export of a number of recyclates, including to China, there are more materials available in fewer markets which impacts on the whole of the market for recyclates and its price. Although the Authority's contractor does not send waste to the far East, the consequence of the China rules has depressed all prices for recyclate Prices are generally fairly depressed and this is likely to impact on the amount of income share that the Authority can benefit from in the short to medium term.

5.10 The impacts of Climate Change and the Authority's declaration of a Climate Change Emergency and the need to develop a zero waste strategy have already been referenced. These factors will be likely to play an increasing role in the Authority's activities into the future.

5.11 As part of the Authority's continuing drive for efficiency, the way the organisation utilises its resources will continue to be reviewed during the next budget cycle. Where there is scope for additional efficiencies or outcomes to be delivered, then a business case will be developed to outline for Members the costs and benefits of any proposal on an 'invest to save' basis. Where there may be benefit to the Authority from a proposed service development, Members will be asked to approve the release of funds where they are necessary to deliver additional efficiency. Normal improvements in services that may be achieved at no additional cost will be implemented as part of the normal business of the Authority.

5.12 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 2019-20 the following amounts were provided:

	£
Amount included in Levy via tonnages	**(4,611,801)**
MWDA Expenditure on Recycling Credits	**4,611,801**

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 2020-21, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £4.763M. The net effect on Districts overall would be zero, however, as the Authority would cease to pay out the same sum £4.763M back to Districts that it had raised from them in the first place. However, the potential effect of this would be to put the decisions about where and how to spend that £4.763M back in the hands of the Districts, who may choose to continue to spend it on recycling, or who may decide to spend it elsewhere; at present those decisions are out of their hands. Should the recycling credits ever be withdrawn there may also be a small saving 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 After a prolonged period where the Authority did not increase the overall Levy levels (eight years) and a period of seeking small increases there have been cliff edge (9%) and significant Levy increases (4.9%) for the past two years. These increases have been required to enable the Authority to start to match the costs of waste disposal with the income required to meet those costs. The proposed budget for 2020-21 includes a proposal to increase the overall Levy by 3.4%, which is lower than the 4.4% increase that had been anticipated at this time last year and throughout the year. If the proposal of an increase of 3.4% is approved for 2020-21 the Authority's planned expenditure and income will be in balance for the first time in ten years, and the Authority will not be planning to utilise reserves to support spending.

7.3 The Authority's medium term approach of utilising reserves to support the Levy is unsustainable and the Authority's reserves now need to be slowly rebuilt to provide a prudent level of insurance against unplanned or unexpected events. Given the scale of the Authority's contracts a relatively small scale change can have a very serious financial impact. If the Authority does not have the buffer of a reasonable and prudent reserve to buffer that impact the first call on any potential overspending would be an unplanned increase in the Levy in the next year; which the Authority should try to avoid in every event.

7.4 The WMRC contract continues to minimise costs to the Authority and the Authority has been able to manage costs effectively, although as reported above there are challenges arising from the international weakness of the market for sales of recycled materials. Elsewhere the Authority and the contractor have moved into a steady operational position for the operation of the Resource Recovery Contract (RRC) and are both seeking to maximise the potential the contract offers. 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 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 For 10 years, the Authority has maintained an approach to the budget that it should use its reserves to support the Levy and for eight of those years managed to sustain this with no increases in the overall Levy. This reflected the concern at the Authority to minimise the cost of the Levy to District Councils in a very difficult financial period. This approach became unsustainable and a cliff edge Levy increase and significant Levy increase for the current year reflected that the practice of not being able to seek modest increases in the Levy was no longer sustainable. Despite these increases for each of those years a contribution from balances was planned.

8.2 In 2019-20 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 remain and required a signifcant Levy increase of 4.9% to continue to equalise the issue position. This has been assisted by the one-off contribution from the company MWHL.

8.3 Due to a combination of the one off funding and a reduction in the Authority's overall costs the gap may be closed by the end of 2019-20 for the first time in 10 years. If that outcome is achieved then for 2020-21 and beyond the Authority is likely to be able to plan for a balanced overall budget supported by relatively modest overall Levy increases. This will also enable to Authority to plan to slowly replenish the general reserves to support unplanned changes in activity or unexpected events.

8.4 The Authority will be in a position to support its declared Climate Emergency with a modest contribution to a small number of budgets as well as a modest contribution to balances with a 3.4% overall Levy increase, which is lower than had been expected at this time last year..

8.5 The Authority will continue 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.

8.6 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.

8.7 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.

8.8 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.

8.9 The Authority is recommended to consider the proposed levy level at 3.4% as shown in the table below:

2020/21 LEVY PER DISTRICT COMPARED TO 2019/20 LEVY - Levy Increase 3.4%
Tonnages Full Yr 18/19

	2019/20 Levy	Proposed Levy 2020/21	Increase/ Decrease (-)	% Increase/ Decrease
Knowsley	8,103,868	8,245,291	141,423	1.7
Liverpool	25,685,896	27,240,570	1,554,674	6.1
St Helens	8,583,298	9,052,415	469,117	5.5
Sefton	15,442,157	15,622,453	180,295	1.2
Wirral	17,182,292	17,386,699	204,405	1.2
	74,997,511	77,547,428	2,549,914	3.4

8.10 It is proposed that the Authority sets the overall Levy increase for 2020-21 at 3.4% - which is 1% lower than had been expected (a reduction of some £750k).

8.11 The effect of reducing the levy to 3.4% has a knock on effect on the future year's Levy plans, as shown in the table below:

Levy projections at 3.4%, 1.4% and 1.7%

	Budget 2020/21 £M	**Budget 2021/22 £M**	**Budget 2022/23 £M**
Projected cost of service	77.5	78.6	79.9
Levy – projection	77.5	78.6	79.9
Net expenditure position	**0**	**0**	**0**
Levy increase	**3.4%**	**1.4%**	**1.7%**

8.12 The Levy projection at 3.4% brings the future levy projection down from 4.4% (as set out last year) to nearer to 1.4% (followed by 1.7%). 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 possible that the projected 1.4% may be lower and that there will also be a reduction in the 1.7% shown for 2022-23.

8.13 If this proposal is taken forward then implementing the outcome of the savings proposals arising from the Strategic Review, and more broadly across the Authority will become even more significant as they will provide some way of mitigating the impacts of the Levy in future years.

8.14 Members of the Authority have to consider their fiduciary duty to Merseyside as a whole in setting the budget and the Levy. In order to set a balanced budget for 2020-21 and the prospect of a balanced budget and financial position going forward, the minimum level of Levy increase Members should consider is 3.4% in overall terms.

8.15 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.

8.16 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's capital programme for 2019-20 included provision for spending up to £710k on a combination of access control measures and infrastructure changes. The revised estimate for the capital programme estimates that there will be total spend of £237k, based on access controls improvements of £42k, a small number of infrastructure changes at £160k and the replacement of the gas flare at Billinge at £35k (although due to the need to work with a partner organisation on this project the timing may be delayed into the next year). These combined projects give a revised capital programme proposal for the year of £237k and are detailed at Appendix 3.

9.2 Once again the proposed capital programme for 2020-21 is relatively modest, but will allow scope for further access controls at HWRCs, review of infrastructure as a response to any strategic review and the potential for additional climate change measures to respond to the climate emergency. These items are detailed at Appendix 3 of the report. Members will be provided with the opportunity to consider and approve any detailed proposals for developments where the scheme requires a significant investment.

9.3 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.

9.4 Almost all aspects of the forward capital programme will have to be funded through the Prudential Borrowing framework as such internal funds that are available are small and will be utilised in full.

10. Budget 2020-21

10.1 The Authority is asked to set a revenue budget of £77,547,428.

11. Levy 2020-21

11.1 The Levy for 2020-21 proposal is as follows:

- An overall 3.4% increase – setting the Levy at £77,547,428.

11.2 Members are recommended to accept the 3.4% 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 2020-21

1. Introduction

1.1 The Authority is required by statute to set its Levy for 2020-21 by 15th February 2020. 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 2020-21 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 3.4% rather than 4.4%% (saving £750k) 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. If the Authority continues to take steps to equalise the Levy and expenditure in this budget and forward in the medium term the prospect is that the Authority's income and expenditure will be in balance for the first time in a decade.

1.8 The robustness of the Authority's budget for 2020-21 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 disposal. 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 contract costs, 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 2019-20

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 2019-20 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £73,716,353 (net of contributions for additional costs) which is a decrease of £1,281,159 from the Original Revenue Budget for 2019-20 (Column 1 of the respective pages of Appendix 1). This decrease has meant that the Treasurer proposes making the following adjustments to balances and reserves.

	£000
General Fund – increase contribution to the Fund from prospective revenue surplus	1,281

2.3 The initial balance on the General Fund is forecast to be at £3.057M at 31 March 2020. These are the total resources available to the Authority at the end of 2019-20.

2.4 The main areas for prospective savings (-) or increased costs (+) in the Revised Revenue Budget for 2019-20 are as follows:

	£000
Establishment – reduction in the cost of employees arising from vacancies being filled more slowly (£88k) offset by very small cost increases elsewhere.	-81
Contracts – the original contracts budgets are over £70M and the underspend represents just over 2.1% compared with the overall budget. The WMRC has performed well and is projected at this stage to underspend (£344k). This is accompanied by a saving on the cost of the RRC (£1,131k) which is in part due to income from third part sales shared by the contractor under the contract.	-1,475
Closed landfill – increased costs of maintenance are offset by efficiencies in managing costs at the landfill sites.	-12
Rents, rates, depreciation – there is a reduction in rent (£5k) and a reduction in rates (£17k) offset by an significant increase in depreciation (£2,146k) – this is part of the technical accounting changes in respect of the Authority's assets following revaluation changes that could not be anticipated at last year's budget – it is offset by technical capital accounting adjustments set out later.	+2,123
Recycling credit payments – small changes for most District Councils (Liverpool -£2k; Wirral +£22k; Sefton +£38k; Knowsley -£15k; St Helens -£29k)	+12
Strategy & resources – anticipated costs arising from proposed waste composition analysis	+10

Data processing – costs arising from continued investment in data software	+11
Behavioural Change – no change anticipated	0
MWHL – reversal of provision - £885k, and interim dividend - £1,615k	-2,500
Interest – no change anticipated	
Capital accounting – adjustment in respect of valuations – which could not be anticipated in last year’s budget – offsetting increase in depreciation above	-765
General Fund – reduction in contribution required	+1,396
TOTAL NET DECREASE	-1,281

3. Proposed Budget 2020-21

3.1 The proposed budget for 2020-21 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £77,547,428 (with no proposed General Fund contribution). This includes the reduction of the anticipated levy increase from 4.4% down to 3.4% and brings the budgeted expenditure and income into balance for the first time in a number of years.

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

	£000
Establishment – the reduction in this budget is largely due to the transfer of the Community Fund to the Behavioural change budget (£115k) alongside a small reduction in the staffing budget (£3k) offset by small increases in premises transport and supplies and services.	-90
Contracts – there is a small increase in the cost of the WMRC related costs of (+£241k), which reflects a lowering of expectations around income from recycling. This is offset by a decrease in the planned cost of the RRC (£1,427k), which reflects the average price of the contract stabilising and allowing for third party income sharing from the EfW plant.	-1,187
Closed landfill sites – the proposal to bring gas field management in-house as part of the Bidston Methane succession plan rather than paying an external contractor is the main reason for a reduction here (£32k) together with small savings for example on Trade Effluent charges (£11k).	-44
Rents, rates & depreciation – rent (+£6k) and rates (+£8k) contribute a small amount	+2,158

to this increase. The larger change here is the increase in the depreciation charge in respect of the revaluation of the authority's assets (+£2,146k) which is partly offset by technical capital accounting adjustments set out later.	
Recycling credits – higher than prior year for most District Councils (Liverpool +£31k; Wirral +£47k; Sefton +£73k; Knowsley -£3k; St Helens +£3k)	+151
Strategy and resources – estimated additional cost of waste composition analysis	+100
Data processing – costs arising from continued investment in data software	+13
Behavioural Change – reflecting the transfer of the Community Fund budget (£100k net), as well as increasing the budget to £150k net and £165k including the Veolia contribution, also the other Climate Emergency initiatives are added here, including Circular Economy initiatives, (£30k), Additional re-use schemes (£10k), increase in the waste prevention programme (£100k), provision for home composting schemes (350k and Mattress recycling schemes (£75k).	+415
Permit scheme – no significant change anticipated	+1
Capital accounting – adjustment in respect of Minimum Revenue Provision (MRP) – partially offsetting increase in depreciation above	-865
Total net change in General Fund contribution (-£1,396 contribution from GF in original estimate – to a £502k	-1,898

contribution to GF to rebuild reserves for 2020-21)	
Levy change – estimated at 3.4% increase overall	2,550

3.3 The proposed Revenue Budget for 2020-21 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 2020 as follows:

	£M
General reserve	3.559

3.5 The General Fund reserve was not required to be applied during 2019-20:

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 a proposed 3.4% increase in the Levy for 2020-21, and looking ahead into the following two years it is expected that by the end of 2020-21 the General Fund will be nearer to a level that may be regarded as adequate assuming a combination of savings and levy increases is approved.

3.7 While the planned balances for 2020-21 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 rebuild and retain those balances into the future otherwise the Authority's financial position is likely to become more precarious.

3.8 If the proposals for the Levy for 2020-21 are approved the Authority will be left with £3.5M of balances at the end of 2020-21, 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 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 and elsewhere has had an effect on the UK market prices for recyclate and may have a significant impact on income sharing	Medium - High

	within the WMRC and increases the longer term volatility of recyclate markets. The value of recyclates more broadly is unclear at present.	

4. **Capital programme**

4.1 The Authority has been considering options for improving services and responding to the climate emergency. 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 £890k 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 2020/2021 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:

16 April 2020	15 October 2020
21 May 2020	19 November 2020
2 July 2020	7 January 2021

6 August 2020	11 February 2021
10 September 2020	11 March 2021

5.3 The Levy proposal is shown in the table below.

Under the existing Mechanism with a 3.4% 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.

2020/21 LEVY PER DISTRICT COMPARED TO 2019/20 LEVY - Levy Increase 3.4%
Tonnages Full Yr 18/19

	2019/20 Levy	Proposed Levy 2020/21	Increase/ Decrease (-)	% Increase/ Decrease
Knowsley	8,103,868	8,245,291	141,423	1.7
Liverpool	25,685,896	27,240,570	1,554,674	6.1
St Helens	8,583,298	9,052,415	469,117	5.5
Sefton	15,442,157	15,622,453	180,295	1.2
Wirral	17,182,292	17,386,699	204,405	1.2
	74,997,511	77,547,428	2,549,914	3.4

Risk Implications

5.5 The Authority is managing the budget and has identified cost saving worth £750k. 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 is now limited. The Authority will finally be able to close the gap between expenditure and income if an overall Levy increase of 3.4% is approved.

5.6 In the medium term the budget gap will continue to require closing, through a combination of cost reduction where possible, seeking to identify income from the contracts and further modest 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 2020-21 that ensures there is sufficient income and resource to cover budgeted expenditure for that year, which it is required to do.

10. Conclusion

10.1 The Authority is required to establish and approve a budget for 2020-21 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.