Authority Budget 2021-22

WDA/02/21

Recommendation

That the Authority:

1. approves the revised budget for 2020-21;
2. approves the revenue budget for 2021-22;
3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £77,636,314;
4. authorises the Levy to be made on the constituent District Councils for 2021-22; 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 2021-22

WDA/02/21

Joint report of the Chief Executive and the Treasurer

# Purpose of the Report

* 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.

# Background

* 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. During 2020-21 the Authority’s activities, along with the whole country, have been impacted significantly by the Covid19 pandemic. The impact has been felt across both the Authority’s main contracts with changes in working patterns and household waste arisings across Merseyside. As people have been told to work from home and have become accustomed to increases in on-line shopping there have been sizable increases, both in residual and dry recycled wastes collected by Councils. There have also been impacts on Household Waste Recycling Centres (HWRCs) where traffic flows have been managed to ensure they remain Covid secure for the public and staff.
	3. The Authority’s main contract to dispose of residual waste, the Resource Recovery Contract (RRC) is used to treat 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. During the current year significant increases in the amounts of waste being transferred to the operator have and continue to provide a challenge financially and logistically.
	4. 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 (MRFs), food waste processing, and has the potential for green waste composting. The contractor has faced a challenging period, with significant increases in recyclable wastes passing through the MRFs. However, the most significant issue operationally has been to ensure that Household Waste Recycling Centres are able to operate, continuing to provide a Covid safe approach for householders to dispose of wastes. Whilst this has been successfully achieved it has not been without challenge and it appears that these challenges will continue for the medium term.
	5. 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.
	6. In terms of managing the organisation safely the Authority was able to ensure that all staff were given the facilities to enable them to work from home. The working environment has adapted and at present most staff only attend the office where it is essential to their activities. Otherwise the staff have demonstrated that they are able to deliver their roles for the Authority whilst working either from home or the office. Meetings are held on-line, and a new Agile Working policy has been agreed for implementation as the ‘new normal’ for the post-Covid world of work.
	7. In the office, where people do attend, they are protected by screens, floor markings to show 2 metre distances, hand sanitiser and desk wipes, with gloves and masks available where required. Under Covid conditions staff have been asked to ensure a minimal presence in the office, to minimise the risks to themselves and each other.

# Contract arrangements

* 1. The RRC enables the Authority to dispose 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, with other arrangements (including alternative EfW) being considered. The contract takes all the residual waste delivered by the constituent District Councils and Halton Council for disposal.
	2. The contract had reached a stable operational phase; the contractor and the Authority have a shared understanding of how the contract operates and have been able to manage planned closedowns and working arrangements effectively. The contractor is in a position to take the Authority’s waste and under usual working conditions, where there is available capacity in the EfW plant, is able to accept third party waste into the plant to generate heat and power. Both the third party waste and the additional heat and power will usually generate an income stream for the contractor and MRWA may benefit from a share of that income through the contractual Payment Mechanism.
	3. For much of the year, however, the contractor’s ability to take in additional third-party waste has been curtailed by the amount of waste being treated on behalf of the Authority as shown in the table below. The table compares waste delivered to the RRC in the current year compared with last year. If this Covid based pattern continues (as it is expected to) the Authority will see 14% more waste being dealt with in the current year compared with the previous year. This comes at an additional cost and also limits the contractor’s ability to accept third-party waste (and ultimately benefit from that income) under the contract.

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* 1. In order to enable the contractor to have the potential 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. This is considered to be unlikely under current circumstances. The longer-term consequences of Covid which may include increased home working may see waste patterns reflecting those changes.
	2. The RRC overall has been recognised independently as a very good environmental and financial deal for Merseyside and Halton, but in part because of Covid, some of the opportunities it contains are yet to be fully realised.
	3. At the same time the WMRC contract has continued to operate during the same Covid conditions. The HWRC network provides opportunities for recycling household waste and the proportion of waste recycled through the network remains at nearly 70%. At the beginning of the Country’s first lockdown, in March 2020, the HWRC network was closed as travel to waste sites had not been included in the Government’s stated reasons for ‘essential’ travel.
	4. There was little guidance from Government on what the position should be. Merseyside’s decision was in line with most local authorities across England. Subsequently, there were calls from the public and politicians across Merseyside to re-open the HWRCs.
	5. MRWA agreed to re-open HWRCs subject to Covid safe working practices being put in place to protect staff and the public on sites.
	6. The Covid safe working has meant that there were restrictions on the number of vehicles that could access the sites at any given time.
	7. The impact of restricting vehicles on sites was discussed with local council Highways officers, and the police via the ‘Transport Cell’ as there were reasonable concerns that the anticipated public demand alongside the reduction in throughputs at HWRCs would lead to queues forming on the roads leading to the HWRCs.
	8. The matter of queues on the highway, which could be anticipated, was a direct impact of both the Covid safe working conditions at HWRCs and very high demand. However, the management of the traffic on roads outside HWRCs is a matter for Highways Managers at the local councils and they have been involved in planning the management of traffic on highways outside HWRCs during the Covid pandemic.
	9. The Council’s Highways Managers have worked alongside the contractor and MRWA to put in place arrangements that the Highways Managers consider appropriate to manage the traffic queues on the highways at sites across Merseyside. These arrangements have been tailored for each of the sites; for some HWRCs the arrangements for queuing were effectively managed on the highway and for others they were also managed utilising space off the highway.
	10. In all cases where highways management arrangements have been put in place by council Highways Managers, and where requested, MRWA agreed to pay for the costs of those arrangements. The costs of the highways management arrangements at the sites has been passed on to MRWA. We understand that some of the relatively high costs associated with the highway management arise because staff are qualified/trained and due to the opening hours at the HWRCs there are often double shifts seven days a week.
	11. During the Covid pandemic MRWA has continued to work with its contractor to safely increase throughputs of vehicles at the sites but they are not yet operating with free, uncontrolled access and on occasion some queuing still happens. Highways Managers consider that highways management (on particular sites) is still required.
	12. There are a small number of sites (3) where local Highways Managers made it clear they could not implement a safe or practical solution for management of traffic. In the case of two of the sites when they opened that was with a booking system for cars. In the case of the third there was a delay in opening the site and then when it did open that was also with a booking system for cars.
	13. In order to manage demand at HWRCs the commercial vehicle permit scheme was suspended, on the grounds that it can take over half an hour to unload a large van, and with restrictions on the numbers attending sites that could have increased queuing times considerably and displaced access to larger numbers of householders in cars.
	14. Subsequently an on-line booking system for vans has been implemented, it has a more limited number of booking slots available so that demand from people who need to use vans can be managed alongside other vehicle users.
	15. In terms of the general approach to booking systems – Government advice is that they should avoided as mechanisms to manage demand at HWRCs.
	16. On the sites where there is a booking system in place there is some evidence that it is discouraging people from attending. Some members of the public make a booking to attend a site and subsequently do not take up the slot that they have booked (ultimately denying another member of the public the opportunity to visit the site).
	17. The booking system does not prevent members of the public from turning up without a booking as the message about bookings at certain sites may not have been seen by all HWRC users. The use of a booking system which can prevent casual and flexible use of HWRCs is the cause of some complaint from disgruntled Members of the public. The booking system necessarily limits visits per week, should the member of the public have more household waste than can be taken to the HWRC in one car, they have to store the waste and make another booking, their access to the public service is restricted.
	18. Elsewhere there is evidence that the van booking system is actively discouraging commercial van users from accessing HWRCs as a significant proportion of the available van booking slots are not being taken up (and certainly there are fewer visits than were allowed under the permit system).
	19. As the numbers of the public who visit HWRCs becomes more like pre-Covid levels the option of a booking system which limits demand increasingly feels inappropriate as it stops the public from having freedom of access to services. In addition, problems of queuing traffic are highly sporadic across the network and anecdotal feedback from our contractor is that they are very much in line with what has been experienced historically. Booking systems may therefore be considered as something of an excessive response to a limited and localised issue. Operational teams (MRWA and District Traffic Managers) continue to meet and will consider the issues and any options that may be appropriate to managing local circumstances.
	20. 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. The MRFs (at Bidston and Gilmoss) have been dealing with significantly higher levels of dry recyclate than in the preceding periods, as people generate more recyclable waste when working from home and shopping on-line. The graph below shows a comparison of the current year with the preceding year:



# *The table does not show St Helens as the Council does not normally utilise MRWA’s recycling services, Halton is not included as their costs are charged separately and not via the Levy*

# Other factors

* 1. Alongside the general effects of the Covid pandemic, local government generally, and Merseyside in particular, continues to face very significant changes in the levels of funding available. The uncertainties of the pandemic alongside Brexit has made 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.
	2. In 2020-21 Merseyside Councils continued to face very significant savings targets, and for 2021-22 and beyond further significant savings will continue to be 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.
	3. We understand that where there is one-off Covid funding available to the local councils they have applied to Government for such funding. Whilst that will help to offset some of the Councils’ additional costs in dealing with the Covid situation it does not address underlying cost savings that may still be required. For MRWA, despite liaison with government, there is no additional one off funding directly available from government to offset our additional costs.
	4. 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 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.
	5. In prior years the Authority has 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. For 2021-22 the proposal is no different, and the Authority’s Levy proposals are based on a significant subsidy from accumulated reserves – over £6M as a result of both increase waste costs (residual and recycled) and significant Highways Management costs being incurred unexpectedly as a result of the Covid pandemic. That approach would leave only £76k in the General fund at the year end.
	6. As a consequence of the spending on significant additional waste costs and highways management in the current year, and anticipated waste arisings and continued traffic management in 2021-22 an overall levy increase of 6.5% was projected to be the minimum necessary. That level of Levy would enable the Authority to meet its financial commitments with waste increases and traffic management and also enable it to contribute towards a slow rebuilding of its financial reserves as held in the General Fund.
	7. During the Autumn 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 2021-22 was very limited due to the significance of the additional waste being delivered and the cost of Traffic Management measures. Treasurers were advised that they should continue to plan for an overall 6.5% increase.
	8. Faced with a potential Levy demand of 6.5%, the Merseyside Treasurers asked MRWA if it would be possible to identify elements of one-off costs associated with the response to Covid19. They recognised that MRWA was receiving no additional funding from Government to cover those costs. If MRWA was able to identify one-off additional costs arising in 2020-21 and for 2021-22 the Treasurers were able to consider making a one-off contribution from their Authority’s Covid funding.
	9. A number of options for the one-off funding contributions were considered by Treasurers. The group agreed that they would go forward with an option that included MRWA billing the Councils for one off costs as follows:
* a contribution in respect of Traffic management costs in 2020-21 (£1.757M allocated on a population basis); and
* a contribution in respect of Traffic Management costs in 2021-22 (£817k allocated on a population basis)] and
* a contribution in respect of one-off tonnage-based costs arising in 2020-21 (£2.377M allocated on a tonnage basis).
	1. The Authority was asked to bill the 2020-21 costs at the end of the year and the 2021-22 costs quarterly in arrears.
	2. In order to proceed with this proposal, the Authority needed formal confirmation from each of the constituent councils that it agreed to the proposal. Without this consensus the 6.5% Levy proposal for 2021-22 would be required to be taken forward. At the time of writing all the Councils had agreed to the approach proposed by the Treasurers, where they support the Authority’s one off Covid related costs with additional Covid related funding that they have had made available to them by Government.
	3. The impact of this proposed arrangement on the Levy for 2021-22 is to bring it from a proposed overall increase of 6.5%, to an increase of almost zero, at 0.11%.

## Climate change and zero waste

* 1. 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.
	2. 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.
	3. 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. 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;
* 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.
	1. In addition, the Authority has invested in a number of activities that had a modest budget impact, 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 included:
* 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.
	1. 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.

# The Budget

* 1. The revised estimates for 2020-21 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 2020-21 is likely to be £79.710M, which is higher than originally agreed and requires significant additional support from the General Fund.
	2. The increase in the Authority’s net costs has arisen from Covid related expenditure on Traffic Management of £1.7M and significant additional waste tonnages being dealt with under the contracts.
	3. For the revised estimate taken together with the proposed one-off contributions from District Councils the Authority will be required to move from a position where there was due to be a planned contribution to balances of £502k, to a position where the contribution from balances is £2.303M. That proposed contribution from balances enables the Authority to ensure that it matches costs and sources of funding in the revised estimate leaving a balance on the General Fund at the year end of £3.777M. Of that amount the larger proportion, £2,755M is proposed to be used to cushion the impacts of the Levy in 2021-22, leaving a balance of £1.022M in the General Fund. This is considered to be a very low level of reserves in the General Fund and the Authority will need to seek opportunities over the next budget cycles to build the fund to a more prudent level.
	4. The Authority’s proposed budget for 2021-22 is presented at a time when the Authority faces significant financial challenges. Waste arisings have increased in overall terms and the amount of residual waste being managed by the Authority remains well above the amounts anticipated 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.
	5. 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.
	6. However, as the Authority has found, the impact of the Covid pandemic on current and medium-term waste flows has been, and is likely to be significant, as they have increased. In a future where different patterns of remote working and home shopping become embedded there may be a need to review the assumptions that underpin aspects of the Authority’s approach to waste and its contracts. The prospect of longer-term growth in waste flows is unlikely to be achievable at a lower cost. Large scale income sharing arising from reduced waste delivered by the Authority, freeing up space for third party commercial wastes in the EfW are less likely than they may have been in the pre-Covid world.
	7. 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 continues to depress all prices for recycled materials. Prices are likely to remain 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.
	8. 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.
	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. 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.
	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.

# The Levy Mechanism and recycling credits

* 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.
	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

* 1. 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 2020-21 the following amounts were provided:

|  |  |  |
| --- | --- | --- |
|  | **£M** |  |
| **Amount included in Levy** **via tonnages** | **(4.763)** |  |
| **MWDA Expenditure on Recycling Credits** | **4.763** |  |

* 1. 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.
	2. 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.
	3. For 2021-22, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £4.767M. The net effect on Districts overall would be zero, however, as the Authority would cease to pay out the same sum £4.767M 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 £4.767M 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.

# Underlying and future costs facing the Authority

* 1. The Authority continues to keep its funding and affordability model under review with the contracts for long term treatment and disposal of waste firmly established. A key function is for the Authority to manage those contracts in a way that ensures value for money continues to flow back to the Authority.
	2. During the budget process for 2020-21 and beyond it was estimated that after a number of years the Authority’s income and expenditure projections would be in balance. All other things being equal the Authority expected to enter into a fairly stable financial position and had no significant plans to utilise reserves to support spending. Those estimates were quickly proved incorrect as the impacts of the Covid pandemic on waste flows and traffic management costs became clearer.
	3. The Authority expects to have incurred additional costs of almost £6.5M by the end of 2020-21. These additional costs will mean that the Authority will need to use almost all of its available balances in support of the unexpected revenue expenditure and to support the Levy for 2021-22.
	4. This unplanned expenditure, together with estimates of how much more waste is likely to flow in the next year, 2021-22, as well as anticipated Traffic management costs continuing for a significant part of the year led to an estimated need for a minimum 6.5% increase in the Levy. As District Council Treasurers have been able to confirm Council support for one off contributions based on utilising Covid related funds provided by Government, this Levy proposal has been scaled back from a 6.5% increase to almost zero, at 0.11%. This proposed levy can only be achieved through a combination of one-off contributions from the Councils (£4.134M in 2020-21 and £817k in 2021-22) and the use of the Authority’s General Fund (£2.303M in 2020-21 and £2.755M in 2021-22).
	5. Regardless of the scale of the waste flows, the WMRC contract continues to minimise costs to the Authority and the Authority has been able to manage costs where they are controllable; 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 are in a steady operational position for the operation of the Resource Recovery Contract (RRC), however, with increased waste flows as a consequence of the Covid and probable post Covid world the prospects of maximising the potential the contract offers for income sharing become more limited. With the RRC in full operation the underlying costs of the Authority would normally be expected to stabilise. However, the Covid-led growth in the costs is expected to be a feature of future budgetary and financial decisions. The Authority is actively managing its contracts and its costs.

# Budget options

* 1. The Authority had been expecting to enter a stable financial, budgeting and levy period, the Covid pandemic has changed that outlook for this year and likely into the near future as home working and home shopping patterns continue to develop and waste streams change alongside the societal changes.
	2. 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 any further financial gap is closed.
	3. 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.
	4. 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 a further 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.
	5. Each time the savings from services are considered the Authority must take account of the knock on effect on both waste flows, which do not go away, and on any additional direct costs on District Councils, which do not fall in the equitable way that the Levy was designed to.
	6. The Authority is recommended to consider the proposed levy level at 0.11% as shown in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020/21 Levy****£** | **Proposed Levy 2021/22****£** | **Increase/ Decrease (-)****£** | **Increase/ Decrease****%** |
| **Knowsley** | 8,245,291 | 8,425,838 | 180,547 | 2.19 |
| **Liverpool** | 27,240,570 | 27,285,102 | 44,532 | 0.16 |
| **St Helens** | 9,052,415 | 8,749,045 | -303,370 | -3.35 |
| **Sefton** | 15,622,453 | 15,510,816 | -111,637 | -0.71 |
| **Wirral** | 17,386,699 | 17,665,512 | 278,813 | 1.60 |
|   | **77,547,428** | **77,636,314** | **88,886** | **0.11** |

* 1. The tables in the Appendix show that the Authority can consider a small range of options for ensuring there is no gap between the Levy and the level of expenditure, but those would not enable the Authority’s modest contribution to its Climate Emergency nor to begin the process of replenishing balances.
	2. It is proposed that the Authority sets the overall Levy increase for 2021-22 at 0.11% which is possible with one-off funding from District Councils to offset the Authority’s Covid-based costs.
	3. The effect of reducing the levy to 0.11% has a knock-on effect on the future year’s Levy plans, as shown in the table below:

**Levy projections at 0.11%, 5.4% and 2.1%**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Budget 2021/22****£M** | **Budget** **2022/23****£M** | **Budget 2023/24****£M** |
| **Projected cost of service** | 77.6 | 81.8 | 83.5 |
| **Levy** – **projection** | 77.6 | 81.8 | 83.5 |
| **Net expenditure position** | **0** | **0** | **0** |
| **Levy increase** | **0.11%** | **5.4%** | **2.1%** |

* 1. The Levy projection at 0.11% changes the future levy projection and because of the one off support this year, cushioning the Levy for 2021-22 there is a likelihood that for 2022/23 there will be an element of catching up, with an outline projection for that year of a 5.4% overall increase, while for 2023/24 the likelihood is that a more modest increase of 2.1% will be required if the expected waste patterns are re-established.
	2. The budget for 2021/22 is based on tonnage estimates provided by District Councils for that year, and the forward estimates assume similar waste tonnages. Should the continuing Covid conditions persist and post Covid if a new normal pattern of waste delivered by districts sees increases, then these projections may need to be reviewed.
	3. Even if this proposal is taken forward, implementing the outcome of the savings proposals arising from the Strategic Review will become even more significant as they will provide some way of mitigating the impacts of waste costs across Merseyside in future years.
	4. 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 2021-22 and the prospect of a balanced budget and financial position going forward, the minimum level of Levy increase Members should consider is 0.11% in overall terms.
	5. 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, and this prospect is considered unlikely in the medium term. 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.
	6. 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.

# Capital costs

* 1. The Authority’s capital programme for 2020-21 was very modest and included provision for spending only £237k on a combination of access control measures and minor 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.
	2. Once again, the proposed capital programme for 2020-21 is relatively modest, but the most important aspect is working to install a fire suppression system at the Bidston site. The proposed capital programme for those works is estimated at £750k, but the contractor Veolia has offered to fund up to £300k of the costs, reducing the estimated cost to the Authority to £450k. Elsewhere the proposals in the programme 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.
	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.
	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.

# Budget 2021-22

* 1. The Authority is asked to set a revenue budget of £77,636,314.

# Levy 2021-22

* 1. The Levy for 2021-22 proposal is as follows:
* An overall 0.11% increase – setting the Levy at £77,636,314.
	1. Members are recommended to accept the 0.11% 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 2021-22

# Introduction

* 1. The Authority is required by statute to set its Levy for 2021-22 by 15th February 2021. 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.
	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. The adequacy of the Authority’s reserves is considered in paragraphs 3.1 to 3.6 of this part of the report.
	2. 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 2021-22 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.
	3. 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. In order to reach a position where the budget is in balance and a modest contribution to reserves may be made the Authority has relied upon agreements from District Councils to provide additional one-off funding for Covid-based costs. 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 0.11% there is little more that can be achieved without significant reductions in waste flows.
	4. 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.
	5. 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 into the medium term the Authority can expect to plan for financial stability in a post Covid environment.
	6. The robustness of the Authority’s budget for 2021-22 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. Based on the above arrangements, it is reasonable to consider that the Authority has a robust budget process.

# Revised Budget 2020-21

* 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. The Revised Revenue Budget for 2020-21 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £83,985,552 (net of contributions for additional costs) which is an increase of £6,438,125 from the Original Revenue Budget for 2020-21 (Column 1 of the respective pages of Appendix 1). In part this increase may be counted as one-off Covid costs, for which District Councils have proposed making one off funding contributions that amount to £4,134,695. This contribution to the increased costs, which helps support the revised estimate means that the Treasurer can propose making the following adjustments to balances and reserves.

|  |  |
| --- | --- |
|  | £000 |
| General Fund – contribution from the Fund to support increase costs from higher than expected tonnages of waste. | 2,303 |

* 1. The total movement is £2.806M as there was initially planned to be a contribution to balances in the current year.
	2. The year end balance on the General Fund is forecast to be at £3.777M at 31 March 2021. These are the total resources available to the Authority at the end of 2020-21 and are proposed to be largely utilised in cushioning the budget in 2021-22.
	3. The main areas for prospective savings (-) or increased costs (+) in the Revised Revenue Budget for 2020-21 are as follows:

|  |  |
| --- | --- |
|  | £000 |
| **Establishment** – reduction in the cost of employees arising from vacancies being filled more slowly (£180k) and small savings elsewhere. Here a small one off Covid cost of £23k for ICT etc. is offset by contributions from Districts. | -188 |
| **Contracts** – the overspend reflects the considerable additional costs of the extra tonnages being dealt with during 2020-21. The one-off Covid contribution from Councils of £2.377M has brought this cost down The WMRC has performed well and is projected at this stage to only overspend by (£345k). This is accompanied by an increase in the cost of the RRC (£5,767k) which due to the costs of the waste flows under Covid conditions. Trade waste income is £110k better than expected.  | +3,645 |
| **Closed landfill** – increased costs of maintenance are offset by efficiencies in managing costs at the landfill sites. | -42  |
| **Rents, & Rates** – the relatively small reduction arises mostly from rates savings. Elsewhere the cost of Highways management at HWRCs under Covid conditions is accounted for here, and the £1.7M costs are offset by the proposed £1.7M one-off contribution from District Councils for one off Covid related costs. | -79 |
| **Recycling credit payments** – small changes for most District Councils (Liverpool -£95k; Wirral -£109k; Sefton +£207k; Knowsley +£22k; St Helens -£170k)  | -135 |
| **Strategy & resources** – mostly arising from the proposed waste composition analysis being delayed by Covid | -125 |
| **Data processing**  | - |
| **Behavioural Change** – delays in starting programmes arising from the Covid pandemic. | -273 |
| **Permits** – no change | - |
| **Interest** – no change anticipated  | - |
| **Capital accounting –** no significant changes | +3 |
| **General Fund –** movement from planned contribution to support required | +2,806 |
|  |  |
| **TOTAL**  | 0 |

# Proposed Budget 2021-22

* 1. The proposed budget for 2021-22 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £81,208,205 before a proposed General Fund contribution of £2,754,891 and a one off contribution in respect of Covid-related costs from the District Councils of £817k.This includes the anticipated levy increase of 0.11%.
	2. The main reasons for changes to the budget are as follows:

|  |  |
| --- | --- |
|  | £000 |
| **Establishment** – the small reduction in the budget arises from savings on staffing costs, offset by small increases in premises and supplies costs.  | -38 |
| **Contracts** – the increases reflect the increase in tonnages being dealt with across the contracts and lower income from both recycled waste sales and third party income sharing which has impacted on the financial prospects.  | +3,343 |
| **Closed landfill sites** – an increase in the likely maintenance costs of £57k is offset by small savings across the board elsewhere. | +37 |
| **Rents & rates** – rent (-£10k) and rates (-£4k) contribute a small amount to this decrease. Those decreases are offset by bringing in the budget for asset surveys at £10k. The likely costs of Highways Traffic management for HWRCs is included here (at £817k) offset by a proposed contribution from District Councils (of £817k). During the year Districts have agreed to be billed on the basis of actual costs incurred, these may be different from those shown in the budget. | -5 |
| **Recycling credits** – small changes for most Districts compared with the prior year for most District Councils (Liverpool -£63k; Wirral -£76k; Sefton +£250k; Knowsley +£35k; St Helens -£142k) | +4 |
| **Strategy and resources** – estimated additional cost of waste composition analysis | - |
| **Data processing** – costs arising from continued investment in data software | +1 |
| **Behavioural Change** – no significant change anticipated  | - |
| **Permit scheme** – no significant change anticipated | - |
| **Capital accounting –** adjustment in respect of Minimum Revenue Provision and depreciation | +3 |
| **Total net change in General Fund contribution** (movement from a £502k contribution to the GF in original estimate – to a £2,755 contribution to GF to support the Levy for 2021-22) | -3,257 |
| **Levy change –** estimated at 0.11% increase overall | +88 |
|  |  |

* 1. The proposed Revenue Budget for 2021-22 has been prepared on the basis of the following assumptions:
* No inflation unless contractually unavoidable
* 2% pay inflation increase
* 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.

* 1. £2.303k of the General Fund reserve was proposed to be applied during 2020-21.
	2. The Authority’s Balances are shown on the second page of Appendix 1 with the various amounts anticipated to be held at 31 March 2021 and the following year as follows:

|  |  |
| --- | --- |
|  | £M |
| General reserve at 31-3-2021 | 3.776 |
| Proposed application of General Fund during 2021-22 to support the Levy | -2.755 |
| General Reserve at 31-3-2022 | 1.021 |
|  |  |
|  |  |
|  |  |

* 1. 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 0.11% increase in the Levy for 2021-22, and looking ahead into the following two years it is expected that by the end of 2021-22 the General Fund will at a level that is on the very low side of prudent. A strategy will need to be considered over the following two budget cycles to return the level of the General Fund to a more prudent level.
	2. While the planned balances for 2021-22 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. If the proposals for the Levy for 2021-22 are approved the Authority will be left with £1M of balances at the end of 2021-22, this is at the lower end of the minimum required for the prudent financial management of the Authority.
	4. 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 arising from both the Covid and post-Covid environment | 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 within the WMRC and increases the longer term volatility of recyclate markets. The value of recyclates more broadly is unclear at present. | Medium - High |

# Capital programme

* 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. There is a requirement to improve the fire suppression system at Bidston in line with other facilities and modern standards. All of these matters may need to be developed into more detailed plans over the short to medium term. An amount of £1.206k 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.
	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 2021/2022 elsewhere on this agenda.

# The Levy

* 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.
	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:

|  |  |
| --- | --- |
| 15 April 2021 | 14 October 2021 |
| 20 May 2021 | 18 November 2021 |
| 1 July 2021 | 6 January 2022 |
| 5 August 2021 | 10 February 2022 |
| 9 September 2021 | 10 March 2022 |
|  |  |

* 1. The Levy proposal is shown in the table below.

## Under the existing Mechanism with a 0.11% increase

* 1. 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.

|  |
| --- |
| **2021/22 LEVY PER DISTRICT COMPARED TO 2020/21 LEVY - Levy Increase 0.11%** |
|  | **2020/21 Levy****£** | **Proposed Levy 2021/22****£** | **Increase/ Decrease (-)****£** | **Increase/ Decrease****%** |
| **Knowsley** | 8,245,291 | 8,425,838 | 180,547 | 2.19 |
| **Liverpool** | 27,240,570 | 27,285,102 | 44,532 | 0.16 |
| **St Helens** | 9,052,415 | 8,749,045 | -303,370 | -3.35 |
| **Sefton** | 15,622,453 | 15,510,816 | -111,637 | -0.71 |
| **Wirral** | 17,386,699 | 17,665,512 | 278,813 | 1.60 |
|   | **77,547,428** | **77,636,314** | **88,886** | **0.11** |

# Risk Implications

* 1. The vast majority of the Authority’s costs are waste tonnage related, and there have been significant increases in the tonnes the Authority is required to process. Whilst some of these tonnage increases may be considered as one off during the Covid pandemic, a proportion of the increases are likely to reflect more permanent changes to working and shopping habits as a new ‘normal’ starts to impact. At a time when the financial pressure on constituent District Councils is severe, it has been incumbent upon the Authority to work with them to mitigate the impact of the Levy as much as possible. However, the Authority’s scope for mitigating those costs is now limited. The next year after 2021-22 may be even more challenging.
	2. 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 increases in the Levy going forward.
	3. 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.

# HR Implications

* 1. There are no HR implications in this report

# Environmental Implications

* 1. There are no new environmental implications arising from this report.

# Financial Implications

* 1. The financial implications run throughout this report.

# Legal Implications

* 1. The Authority is setting a budget for 2021-22 that ensures there is sufficient income and resource to cover budgeted expenditure for that year, which it is required to do.

# Conclusion

* 1. The Authority is required to establish and approve a budget for 2021-22 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 contact officer for this report is: Peter Williams7th Floor, Number 1 Mann Island, Liverpool, L3 1BPEmail: peter.williams@merseysidewda.gov.ukTel: 0151 255 2542Fax: 0151 227 1848The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil. |