

MRWA BUDGET 2022-23
WDA/03/22

Recommendation

That the Authority:

1. approves the revised budget for 2021-22;
2. approves the revenue budget for 2022-23;
3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £78,988,462;
4. authorises the Levy to be made on the constituent District Councils for 2022-23; 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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MRWA BUDGET 2022-23**WDA/03/22****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 During 2021-22 the Authority's activities have continued to be impacted by the Covid19 pandemic and the effects of changes in working practices and the growth of on-line shopping, both of which have impacted upon the levels of waste arisings.
- 2.3 The impact has been felt across both the Authority's main contracts both in residual and dry recyclable wastes collected by Councils. There have also been impacts on Household Waste Recycling Centres (HWRCs) although for the most part the queueing and traffic management issues that arose in the first year of the pandemic have not continued during 2021-22.
- 2.4 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. Once again during the current year continued high levels of waste

being transferred to the operator have and continue to provide a challenge financially and logistically.

- 2.5 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 green waste composting. The contractor has faced a challenging period, with continued high levels of recyclable wastes passing through the MRFs. The operator has also faced the challenge of changes in working practices and approaches at the Household Waste Recycling Centres so that they continue to provide a Covid safe approach for householders to dispose of wastes.
- 2.6 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 Merseyside on waste minimisation and education initiatives, as well as managing historic closed landfill site liabilities.
- 2.7 In terms of managing the organisation safely the Authority has continued to ensure that staff have the facilities to enable them to work from home where necessary. The office working environment has been adapted in line with the extant Covid guidance.
- 2.8 The Authority has also approved an Agile Working Policy that enables staff to continue to work from home or from the office by agreement with their manager.

3. Contract arrangements

- 3.1 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.
- 3.2 Under normal working conditions the contractor takes the Authority's waste and, 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 would normally generate an

income stream for the contractor and MRWA could benefit from a share of that income through the contractual Payment Mechanism.

- 3.3 Once again for most 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. The waste being treated during 2021-22 is likely to be hardly any less than in 2020-21 (the first pandemic year – estimated to be 0.1% less at the time of writing) where waste was some 14% higher than had been previously dealt with by the Authority. This continuing high level of waste puts significant logistical pressure on the system as well as making it significantly more expensive for the Authority.
- 3.4 In order to enable the contractor to have the potential to generate significant additional income for the contract (and potentially 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.
- 3.5 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.
- 3.6 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%. The temporary closure of the HWRCs that was seen during 2020-21's first lock down has not been repeated and the HWRC network has been operating in an unhindered way during the current year (albeit with changes to the way on-site operatives work on a day-to-day basis to ensure they are Covid safe to protect staff and the public on sites).
- 3.7 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.

- 3.8 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, whilst also removing the unlimited visits for recyclable materials. The on-line booking system will be reviewed 12 months after its formal approval, but so far is seen to be a success.
- 3.9 There are more available spaces in the scheme than are being taken up by people with commercial style vehicles, so people are not being prevented from using the system. However, it does anecdotally appear that the number of commercial style vehicles visiting the HWRCs has diminished which takes some pressure out of the system. At the same time the paper based permit scheme has ceased (pending scheme review), and so there are some administrative savings from not continuing to send permits out in the post.
- 3.10 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 Gillmoss) have continued to deal with significantly higher levels of dry recyclate than in the non-Covid times, as people generate more recyclable waste when working from home and shopping on-line.

4. Other factors

- 4.1 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 have 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.
- 4.2 In 2021-22 Merseyside Councils continued to face very significant savings targets, and for 2022-23 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.

- 4.3 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 there is no additional one-off funding directly available from government to offset our additional costs.
- 4.4 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.
- 4.5 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 2022-23 the proposal is no different, and the Authority's Levy proposals are based on a further subsidy from Reserves, supported by the District Council proposals to utilise some of their one-off Covid funding..
- 4.6 As a consequence of the spending on significant additional waste costs in the current year and a catch-up as the Levy in the previous year had been 'artificially' held back, and anticipated waste arisings in 2022-23 an overall levy increase of 5.8% was projected to be the minimum necessary. That level of Levy would enable the Authority to meet its financial commitments with waste increases also enable it to contribute towards a slow rebuilding of its financial reserves as held in the General Fund.
- 4.7 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 2022-23 was very limited due to the significance of the additional waste being delivered and the fact that the levy increase from the previous year had been curtailed. Treasurers were advised that they should continue to plan for an overall 5.8% increase.
- 4.8 Faced with a potential Levy demand of 5.8%, 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 2021-22

the Treasurers were able to consider making a one-off contribution from their Authority's Covid funding.

- 4.9 Alongside savings identified by MRWA options for the one-off funding contributions were considered by District Council 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 one-off tonnage-based costs arising in 2021-22 (£2.15M allocated across District Councils on a tonnage basis).
- 4.10 The Authority was also asked to bill the 2021-22 costs before the end of the year, so that the bill for each District was matched with their Covid one off funding from Government.
- 4.11 During the budget setting process for 2021-22 the Councils were able to provide confirmation that this kind of approach was acceptable to them before MRWA set its budget. For 2022-23 the Council Treasurers have confirmed that they agree in principle to support a funding approach where they provide Covid one-off funding during 2021-22 to support the Authority's spending. That will enable the Authority to provide support for the Levy during 2022-23. The General Fund support for the Levy will enable the Authority to keep the overall Levy increase in 2022-23 down to 1.74% (compared with a planned 5.8%), which is in line with Councils' expectations for the year. Under the Levy mechanism different Councils will receive different Levy increases.

Climate change and zero waste

- 4.12 At a time when there has been significant emphasis placed on the impact of human activity on the planet the Authority joined with others in declaring a Climate Emergency, and at the same time proposed that a Zero Waste strategy for 2040 be developed. The timing of the Climate Emergency declaration has allowed the Authority to develop its approach to the Corporate Plan for 2022-23 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.
- 4.13 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.

4.14 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.

4.15 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 a re-use model;
- 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.
- Work to develop mattress recycling schemes;

4.16 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:

- 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; and

- Further investment in moving towards a Circular Economy.

4.17 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.

5. The Budget

- 5.1 The revised estimates for 2021-22 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 operating costs for 2021-22 is likely to be £79.5M, which is lower than originally agreed and although it still requires support from the General Fund that is £829k less than had been planned for.
- 5.2 The reduction in the Authority's net costs has been possible because of the one off contribution from the District Councils of £2.1M.
- 5.3 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 £2.75M, to a position where the contribution from balances is £1.93M. 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 £6.728M. Of that amount a large proportion, £3.126M is proposed to be used to cushion the impacts of the Levy in 2022-23, leaving a balance of £3.6M in the General Fund. This is considered to be a prudent but still relatively 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.
- 5.4 The Authority's proposed budget for 2022-23 is presented at a time when the Authority faces significant financial challenges. Waste arisings have remained high 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.

- 5.5 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 be 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.
- 5.6 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.
- 5.7 At the same time across the City Region, each of the Councils is committed to delivering significant numbers of additional housing to respond to the national housing shortage. This commendable objective does, however, have a significant knock on impact for the Authority as for each new home developed there is on average approximately 1.1 tonnes of additional waste arising. So for 1,000 homes there might be up to 1,100 additional tonnes of waste, which would cost well over an additional £100k to dispose of.
- 5.8 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.
- 5.9 One of the key challenges facing the Authority and all organisations involved in waste recycling is the 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 can be more materials available in fewer markets which can impact 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 impact on the volatility of all prices for recycled materials. On the other side of the equation, the continuing high price of oil pushes up demand for recyclable goods and for recycled products as they become more economically attractive. Prices are likely to remain uncertain and this is likely to impact on the amount of

income share that the Authority can plan to 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 Strategic Reviews 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)

$$\begin{aligned}
 &+ \text{ (Population based costs)} \\
 &\quad + \text{ or } - \text{ (abatements)} \\
 &= \text{ TOTAL COST OF LEVY}
 \end{aligned}$$

- 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 2021-22 the following amounts were provided:

	£M
Amount included in Levy via tonnages	(4.767)
MWDA Expenditure on Recycling Credits	4.767

- 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 2022-23, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £5.288M. The net effect on Districts overall would be zero, however, as the Authority would cease to pay out the same sum £5.288M 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 £5.288M 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.

- 6.7 At the same time MRWA understand that the City Region's Strategic Waste Partnership is seeking support from the Council Treasurers for a review of the Levy Mechanism to provide a different way of dividing the costs of the Authority in a way that goes to support climate emergency declarations. Members will recall that MRWA discussed an approach to the Levy Mechanism, in a report from June 2021 (WDA1621); that report has been shared with District Councils as it recognised that decisions on the Levy Mechanism are not for MRWA but are for the constituent Councils.

7. Underlying and future costs facing the Authority

- 7.1 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.
- 7.2 The Authority expects to continue to incur additional costs by the end of 2021-22. These additional costs will mean that the Authority will need to use much of its balances in support of the ongoing unplanned growth in revenue expenditure and to support the Levy for 2022-23.
- 7.3 This continued high level of expenditure caused by continued high levels of waste arisings led to an estimated need for a minimum 5.8% increase in the Levy. As District Council Treasurers have agreed in principle to Council support for one off contributions based on utilising Covid related funds provided by Government, this Levy proposal has been scaled back from a 5.8% increase to below inflation, at 1.74%. This proposed levy can only be achieved through a combination of one-off contributions from the Councils (£2.1M in 2021-22) and the use of the Authority's General Fund (£1.925M in 2021-22 and £3.126M in 2022-23).
- 7.4 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 volatility 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.

8. Budget options

- 8.1 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.
- 8.2 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.
- 8.3 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.
- 8.4 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.

- 8.5 Each time the savings from services are considered the Authority must take account of the knock on effect on both waste flows, which do not go away, and on any additional direct costs on District Councils, which do not fall in the equitable way that the Levy was designed to.
- 8.6 The Authority is recommended to consider the proposed Levy increase, at 1.74% as shown in the table below:

2022/23 LEVY PER DISTRICT COMPARED TO 2021/22 LEVY				
Tonnages Full Yr 20/21				
	2021/22 Levy £	Proposed Levy 2022/23 £	Increase/ Decrease (-) £	Increase/ Decrease %
Knowsley	8,425,838	8,778,913	353,075	4.19%
Liverpool	27,285,103	27,285,103	0	0.00%
St Helens	8,749,045	9,374,521	625,476	7.15%
Sefton	15,510,817	15,876,545	365,728	2.36%
Wirral	17,665,513	17,673,380	7,867	0.04%
	77,636,317	78,988,462	1,352,145	1.74%

- 8.7 It is proposed that the Authority sets the overall Levy increase for 2022-23 at 1.74% which is possible with one-off funding from District Councils to offset the Authority's Covid-based costs.
- 8.8 The effect of reducing the levy to 1.74% has a knock-on effect on the future year's Levy plans, as shown in the table below:

Levy projections at 1.74%, 6.97% and 2.91%

	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M
Projected cost of service	78.988	84.298	86.957
Levy – projection	79.088	84.298	86.957
Net expenditure position	0	0	0
Levy increase	1.74%	6.97%	2.91%

- 8.9 The Levy projection at 1.74% changes the future levy projection and because of the one off support this year, cushioning the Levy for 2022-23 there is a likelihood that for 2023-24 there will be an element of catching up, with an outline projection for that year of an almost 7% overall increase, while for 2024-25 the likelihood is that a more modest increase of 2.91% will be required if the expected waste patterns are re-established.
- 8.10 The budget for 2022-23 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.
- 8.11 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.
- 8.12 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 2022-23 and the prospect of a balanced budget and financial position going forward, the minimum level of Levy increase Members should consider is 1.74% in overall terms.
- 8.13 There may be further scope for some additional savings to be identified through reviewing services and where they are provided, but that does not address the underlying issue, that by far the largest part of the Authority's costs come from the amount of waste generated, which is outside the Authority's control. Significant savings are unlikely to be achievable without a very significant drop in the amount of waste delivered for treatment, 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.

- 8.14 The Authority will monitor the financial position very carefully over the next year to ensure it mitigates the potential for Levy increases. This approach will be predicated upon discussions with District Council Treasurers to ensure that the levy has the least impact possible on the Councils.

9. Capital costs

- 9.1 The most important aspect of the Authority's Capital Programme for 2021-22 is working to install a fire suppression system at the Bidston site. The proposed capital programme for those works is now estimated at £885k, but the contractor Veolia has offered to fund up to £367k of the costs, reducing the estimated cost to the Authority to £518k. The remainder of the programme was very modest and included provision, should it be required for spending on 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. The only other proposed capital spending of note is the sum of £90k allocated to procure pumps for the surface water lagoon at Sefton Meadows Closed Landfill Site. This amount will be required as Sefton Council plans to withdraw the surface water pumps that they had been providing. The amount may be required to be paid at the end of the current year, or depending on the progress of the procurement in the new year, this is reflected in a note on the planned programme.
- 9.2 Once again, the proposed capital programme for 2022-23 is relatively modest at an estimated £607k with no significant scheme planned for the year. 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 going forward 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 In addition Members' attention is drawn to the note at the end of the Capital Programme in Appendix 3 that sets out the potential for a need for a further very significant investment, should the Government's proposals require significant infrastructure changes in the medium term. A sum of up to £10M has been proposed to be considered as any infrastructure changes, for example to the Authority's MRF's, may be significant.
- 9.5 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 2022-23

- 10.1 The Authority is asked to set a revenue budget of £78,988,462.

11. Levy 2022-23

- 11.1 The Levy for 2022-23 proposal is as follows:
- An overall 1.74% increase – setting the Levy at £78,988,462.
- 11.2 Members are recommended to accept the 1.74% 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 2022-23

1. Introduction

- 1.1 The Authority is required by statute to set its Levy for 2022-23 by 15th February 2022. 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 is 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 2022-23 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, and savings to supplement the General Fund.
- 1.5 The budget proposals, this year reflect that once again only due to significant Covid one off funding from District Councils (£2.1M proposed) are there 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 1.74% there is little more that can be achieved without significant reductions in waste flows.

- 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 into the medium term the Authority can expect to plan for financial stability in a post Covid environment.
- 1.8 The robustness of the Authority's budget for 2022-23 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.
Support from District Councils	The District Council Treasurers have indicated that in principle they support the allocation of one-off Covid funding to support the Authority in keeping the headline Levy lower than would otherwise be the case.

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

2. Revised Budget 2021-22

- 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 2021-22 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £79,562,620 (net of contributions for additional costs) which is an decrease of £829,584 from the Original Revenue Budget for 2021-22 (Column 1 of the respective pages of Appendix 1). In part this decrease may be counted as one-off Covid costs, for which District Councils have proposed making one off funding contributions that amount to £2.15M. 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 – lower than planned contribution from the Fund (due to proposed Covid one off contribution) to support increase costs from increasing tonnages of waste.	1.925
2.3 The total movement is £830k reduction in contribution from balances as there was initially planned to be a higher contribution to balances in the current year.	
2.4 The year end balance on the General Fund is forecast to be at £6.728M at 31 March 2022. These are the total resources available to the Authority at the end of 2021-22 and a significant proportion of this balance is proposed to be utilised in cushioning the budget in 2022-23.	
2.5 The main areas for prospective savings (-) or increased costs (+) in the Revised Revenue Budget for 2021-22 are as follows:	

	£000
Establishment – reduction in the cost of employees arising from vacancies being filled more slowly (-£47k) and small savings elsewhere.	-49
Contracts – the underspend reflects the proposed one off contribution from District Councils in respect of additional Covid one off funding of £2.1M, This is offset by additional costs arising from those tonnages, especially for the Resource Recovery Contract (£2.2M), which are offset by savings on the Waste Management and Recycling Contract of £1.5M.	-1,250

Closed landfill – savings across the board have been offset by an increase in the costs of dealing with trade effluent from the sites (+£22k) which is weather dependent, and the associated additional electricity costs (+£12k) arising from having water pumps running for longer..	+21
Rents, & Rates – the savings here arise from the impacts of falling rates bills (-£9k) which are offset by the costs of paying for the assets valuation which has fallen into this period (+£26k). Elsewhere here the costs of Highways management for Covid affected HWRCs and the cost recovery from Districts agreed in the previous budget round is significantly smaller than had been estimated (£-632k),	-68
Recycling credit payments – changes for most District Councils, some more significant than others (Liverpool +£87k; Wirral +£112k; Sefton -£113k; Knowsley -£42k; St Helens +322k)	+367
Strategy & resources, Data processing, Behavioural Change, Permits – no significant changes	0
Interest – charges from the provider	+178
Capital accounting – minor adjustment	-29
General Fund – reduction in planned contribution to support required	830
TOTAL	0

3. Proposed Budget 2022-23

- 3.1 The proposed budget for 2022-23 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £82,114,723 before a proposed General Fund contribution of £3,126,262. This includes the anticipated levy increase of 1.74%.
- 3.2 The main reasons for changes to the budget are as follows:

	£000
Establishment – the small change in the budget reflects a small increase in staffing costs. Elsewhere provision has been made for additional support for the year end processes which has been taken from an Agency budget.	+6
Contracts – the increases reflect the increase in tonnages being dealt with across the contracts and in particular the continued costs of tonnes into the RRC (+£2.3M), this is offset by estimated increases in the recycle income under the WMRC contract which contribute to keeping those costs in check (-£1.2M).	+1,137
Closed landfill sites – a reduction the likely maintenance costs of (-£40k) is offset by a significant increase in the estimated costs of electricity (+£119k) and the additional costs of dealing with trade effluent (+£25k).	+96
Rents & rates – a small increase in the costs of rent (+£1k) and the costs of the assets valuation (+£3k) is offset by expected reductions in the costs of the rates (-£88k).	-84

Recycling credits –changes for most Districts compared with the prior year for most District Councils (Liverpool +£122k; Wirral +3140k; Sefton -£72k; Knowsley -£30k; St Helens +£361k)	+521
Strategy and resources – estimated saving from not carrying out a waste composition analysis	-100
Data processing, Behavioural Change – no significant changes	0
Permit scheme – postage savings offset by additional stationery costs	-3
Interest payments	+179
Capital accounting – adjustment in respect of Minimum Revenue Provision and depreciation	-29
Total net change in General Fund contribution (movement from a £2,755k contribution to the GF in original estimate – to a £3,126k contribution to GF to support the Levy for 2022-23)	-371
Levy change – estimated at 1.74% increase overall	+1,352

3.3 The proposed Revenue Budget for 2022-23 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.

- 3.4 £2.303k of the General Fund reserve was proposed to be applied during 2020-21.
- 3.5 The Authority's Balances are shown on the second page of Appendix 1 with the various amounts anticipated to be held at 31 March 2022 and the following year as follows:

	£M
General reserve at 31-3-2022	6.728
Proposed application of General Fund during 2022-23 to support the Levy	-3.126
General Reserve at 31-3-2023	3.602

- 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 1.74% increase in the Levy for 2022-23, and looking ahead into the following two years it is expected that by the end of 2022-23 the General Fund will at a level that is prudent but at the lower end of the range. 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.
- 3.7 While the planned balances for 2022-23 remain at 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 2022-23 are approved the Authority will be left with £1M of balances at the end of 2022-23, this is considered to be prudent for the financial management of the Authority, but a strategy to bring more strength to the financial position of the Authority needs to be considered into the future.

3.9 The Authority will be at risk if it fails to maintain this 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

Covid one off funding	Should Councils be unable to pass on their Covid one-off funding to support the Authority the balances would be reduced by £2.1M leaving a very small General Fund (£1,5M) to support unplanned expenditure. The consequence of this would be likely to impact on proposals for Levy increases in future years	Low
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4. Capital programme

- 4.1 The Authority has been considering options for improving services and responding to the climate emergency. All of these matters may need to be developed into more detailed plans over the short to medium term. An amount of £607k 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 In addition, Members attention is drawn to the prospective need for a significant investment in the Authority's infrastructure to cater for upcoming changes in waste delivered to us as a consequence of the Government's latest proposals in the Environment Bill. An amount of £10M has been earmarking as an initial sum that may be required – but at this stage it is a contingency as the scale and scope of any proposals remains to be confirmed.
- 4.3 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.

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:

14 April 2022	13 October 2022
19 May 2022	17 November 2022
30 June 2022	5 January 2023
4 August 2022	9 February 2023
8 September 2022	9 March 2023

5.3 The Levy proposal is shown in the table below. NB the proposal includes a minor adjustment from the prior year where an amount of 17 tonnes of charitable third party recycling was excluded in error. Following an Internal Audit review this amount has been adjusted for – and the adjustment is shown in Appendix 2.

Under the existing Mechanism with a 1.74% 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.

<u>2022/23 LEVY PER DISTRICT COMPARED TO 2021/22 LEVY</u>				
<u>Tonnages Full Yr 20/21</u>				
	2021/22 Levy £	Proposed Levy 2022/23 £	Increase/ Decrease (-) £	Increase/ Decrease %
Knowsley	8,425,838	8,778,913	353,075	4.19%
Liverpool	27,285,103	27,285,103	0	0.00%

St Helens	8,749,045	9,374,521	625,476	7.15%
Sefton	15,510,817	15,876,545	365,728	2.36%
Wirral	17,665,513	17,673,380	7,867	0.04%
	77,636,317	78,988,462	1,352,145	1.74%

Risk Implications

- 5.5 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.
- 5.6 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 2022-23 may be even more challenging.
- 5.7 These pressures are exacerbated by plans across Merseyside to continue to increase housebuilding in response to the national housing shortage. This laudable response to the shortfall does, however, continue to create additional waste pressures for the Authority.
- 5.8 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.
- 5.9 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 2022-23 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 2022-23 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.