MRWA BUDGET 2023-24
WDA/04/23

Recommendation

That the Authority:

1. approves the revised budget for 2022-23;

2. approves the revenue budget for 2023-24;

3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £78,892,527;

4. authorises the Levy to be made on the constituent District Councils for 2023-24; 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 2023-24
WDA/04/23

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 2022-23 the Authority's activities have finally started to return to a pattern that reflects more the pre-Covid behaviours, although the effects of changes in working practices and the movement to considerably more on-line shopping, continue to impact upon the levels of waste arisings.

2.3 The key impact for the Authority over the year continues to be the national and international economic outlook where the prospects for an easing of the positions remain unclear. The origins of the economic difficulty may be tracked in a simplistic way to the conflict in Ukraine and the myriad consequences arising from that. Not the least of these consequences is the significant increase in energy costs, the Government's short and medium term responses to that impact and the subsequent 'cost of living crisis' facing households and businesses across the country and locally. The effect of these impacts on the key waste flows of MRWA's contractors is not always predictable and gives some uncertainty when forecasting for budget purposes is required.

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 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 (EfW) 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.

3.3 The difficulties have been exacerbated over recent months with technical issues at the EfW leading to longer periods of planned and unplanned maintenance and repairs than would be expected. The contractor is in close liaison with the Authority over these closedown periods, particularly as they are periods where waste is transferred to other facilities (mostly landfill) and it becomes very expensive for the contractor.

3.4 In part the expense is exacerbated because the contractor is unable to fully utilise the Rail Transfer Loading Station in times of shutdown, and has to arrange road haulage to alternative sites. At the same time, where the EfW is not in full operation then the opportunity cost to be the contractor and to a degree to MRWA as well is that there is less opportunity to take advantage of third party sales of electricity which can generate a shared income.

3.5 At the same time as the contractor has had to respond to the issues arising from the EfW plant they have also been impacted by the ongoing industrial disputes across the rail industry. The Rail Transfer Loading Station at Knowsley provides access to the contractor's principal means of transferring waste by rail to the EfW. Each time industrial action is called that has prevented the contractor from being able to use the rail network to transport waste to the EfW in Redcar. The inevitable consequence of that is that the contractor has to make alternative arrangements for road haulage which are not always easily available and can come at significant additional cost to them. The logistics and expense of these alternative arrangements have meant for a difficult period for the contractor and for MRWA staff in the contracts team who have continued to work alongside them to ensure the waste continues to move to disposal points.

3.6 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. Whilst the current economic situation may give rise to some changes the prospects of significant reductions are considered to be unlikely at present.

3.7 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 and in part because of the technical EfW issues and transport difficulties, some of the opportunities it contains are yet to be fully realised.

3.8 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 continued to face a challenging period, with high levels of recyclable wastes passing through the MRFs.

3.9 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. More recently the contractor has been involved in an industrial dispute with the staff they employ where a pay offer was made and rejected. There was a significant likelihood that in the period after Christmas there was going to be strike action that would impact on the District Councils. The contractor and the staff came to an agreement in the new year that has averted strike action, but the potential for disruption across Merseyside should not be discounted and the impact of the strike would have been significant. At the same time Members should be aware that there was a strike among collection staff employed by Biffafor Wirra Council, and (at the time of writing) there is a proposed strike by collection staff working for Liverpool Street Scene Ltd, for Liverpool Council. Each time there is industrial action there are knock on effects for the Authority, both during the period of the strike where significantly more materials are delivered to the already busy HWRCs, and afterwards when the Councils are required to ‘catch-up’ on collections which can have an impact on the transfer stations and the MRFs where for a short period more materials are delivered.

3.10 In order to manage demand at HWRCs 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 was reviewed 12 months after its formal approval, and is seen to be a success.

3.11 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. It also appears 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 and so there are some administrative savings from not continuing to send permits out in the post.

3.12 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 higher levels of dry recyclate. The prospects for this part of the contract remain encouraging, as there are often price benefits from recyclate sales where energy costs ae higher. Where these price benefits can be anticipated they will be reflected in mitigating the ongoing costs of the contract to the Authority.

3.13 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. These kinds of activities will become increasingly important if recycling rates are to be improved and to contribute to reducing the costs of residual waste going forwards.

4. Other factors

4.1 Local government generally, and Merseyside in particular, continues to face very significant changes in the levels of funding available. The challenging economic climate has made economic planning more difficult. 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 2022-23 Merseyside Councils continued to face very significant savings targets, and for 2023-24 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 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.

4.4 The former Chief Executive and 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 For many 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 2023-24 the proposal is no different, and the position reached by the former Chief Executive was for the Authority’s Levy proposals to be based on a further subsidy from Reserves.

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 2023-24 an overall levy increase of nearly 7% 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 in the absence of the Treasurer (due to sickness) the former Chief Executive worked alongside District Council Chief Executives to agree and approach that would reduce the burden from that originally projected level on almost 7% down to a figure that District Councils could ore reasonably accept.

4.8 Eventually after a series of discussions the proposed level of Levy change was that after a significant contribution from MRWA balances, on a one-off basis, the overall Levy would be reduced by 0.12%. This proposed reduction in in the Levy meant that for most of the constituent District Councils, under the existing Levy mechanism, they would see a reduction in their Levy charge for 2023-24, and that the only Council with an increase would see that increase held to below 2% (1.88%). That proposal has been accepted by Council Chief Executives and forms the basis of the budget proposals for MRWA during 2023-24.

Climate change and zero waste

4.9 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 2023-24 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.

4.10 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.

4.11 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.

4.12 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;

4.13 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.

4.14 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 2022-23 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 2022-23 is likely to be £78.3M, which is lower than originally agreed and enables the Authority to contribute £612k to support from the General Fund.

5.2 For the revised budget the Authority will be required to move from a position where there was due to be a planned contribution from balances of £3.1M, to a position where the contribution to balances is £0.61M. That proposed contribution to 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 £9.3M. Of that amount a large proportion, almost £3.5M is proposed to be used to cushion the impacts of the Levy in 2023-24, leaving a balance of almost £5.8M in the General Fund. This is considered to be a prudent but will be required given the potential challenges the Authority faces over the next two years.

5.3 The Authority’s proposed budget for 2023-24 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.

5.4 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.

5.5 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.

5.6 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 may have anticipated when the contracts were developed.

5.7 To ensure that the contracts continue to provide the services and incentives that Merseyside needs it will be important over the short to medium term to carry out a strategic review that focuses on waste flows, climate action and costs, so that MRWA and its partners can continue to move forward with the shared ambition of reductions in waste arising and disposal costs. This will be particularly important as one of the contracts, the WMRC comes to an end in the next six years and the Authority needs to work with its partners to determine how best to respond to the need for new arrangements, particularly in light of the government's proposals for food waste, and for waste streams to be changed and rationalised.

5.8 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.

5.9 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.

5.10 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.

5.11 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)
+ (Population based costs)
+ or – (abatement)
= TOTAL COST OF LEVY

6.3 The Recycling and Waste 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 2022-23 the following amounts were provided:

	£M
Amount included in Levy via tonnages	**(5.288)**
MWDA Expenditure on Recycling Credits	**5.288**

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 2023-24, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £4.850M. The net effect on Districts overall would be zero, however, as the Authority would cease to pay out the same sum £4.850M 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 £4.850M 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 is 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 2022-23. These additional costs will mean that the Authority will need to use a significant proportion of its balances in support of the ongoing growth in revenue expenditure and to support the Levy for 2023-24.

7.3 This continued high level of expenditure caused by continued high levels of waste arisings led to an estimated need for an almost 7% increase in the Levy. As District Council Chief Executives have agreed in principle to the former Chief Executive’s proposal this Levy proposal has been scaled back from nearly 7% increase to well below inflation, at -0.12%. This proposed levy can only be achieved through the use of the Authority’s General Fund (almost £3.5M in 2023-24).

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 economic outlook has changed that prospect for this year and likely into the near future as energy costs and the cost of living crisis continues to sharpen and waste streams and costs continue to change.

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. However, these individual cost-saving exercises will continue to be examined, both with the Authority and via the Joint Waste Partnership, to identify whether there is scope for cost reductions that can be shared by all partners.

8.6 The Authority is recommended to consider the proposed Levy change, at -0.12% as shown in the table below:

2023/24 LEVY PER DISTRICT COMPARED TO 2022/23 LEVY				
Tonnages Full Yr 21/22				
	2022-23 Levy £	**Proposed Levy 2023-24 £**	**Increase/ Decrease (-) £**	**Increase/ Decrease %**
Knowsley	8,778,913	8,654,320	-124,593	-1.42%
Liverpool	27,285,102	27,798,539	513,437	1.88%
St Helens	9,374,521	8,878,268	-496,253	-5.29%
Sefton	15,876,545	15,849,243	-27,302	-0.17%
Wirral	17,673,380	17,712,156	38,776	0.22%
	78,988,461	**78,892,526**	-95,935	-0.12%

8.7 It is proposed that the Authority sets the overall Levy increase for 2023-24 at -0.12% which is possible with significant one-off funding from the Authority's General Fund.

8.8 The effect of reducing the levy to -0.12% has a knock-on effect on the future year's Levy plans, as shown in the table below:

Levy projections at -0.12%, 7.43% and 2.89%

	Budget 2023/24 £M	**Budget 2024/25 £M**	**Budget 2025/26 £M**
Projected cost of service	78.893	84.754	87.203
Levy – projection	78.893	84.754	87.203
Net expenditure position	**0**	**0**	**0**
Levy increase	**-0.12%**	**7.43%**	**2.89%**

8.9 The Levy projection at -.012% changes the future levy projection and because of the one off support this year, cushioning the Levy for 2023-24 there is a likelihood that for 2024-25 there will be an element of catching up, with an outline projection for that year of an almost 7.5% overall increase, while for 2025-26 the likelihood is that a more modest increase of 2.89% will be required if the expected waste patterns are re-established. Both of these future year projections for Levy changes are made without reference to support from any General Fund reserves as these are made on a one-off basis and may not be available for further support going forwards.

8.10 The budget for 2023-24 is based on tonnage estimates provided by District Councils for that year, and the forward estimates assume similar waste tonnages. Should the continuing economic conditions persist, and different pattern of waste delivered by districts sees increases or significant decreases, 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 2023-24 and the prospect of a balanced budget and financial position going forward, the change in level of Levy Members should consider is -0.12% 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.

Merseyside Waste Disposal Authority
3rd February 2023

9. Capital costs

9.1 The most Capital programme for 2022-23 has remained at a very modest level and it is anticipated that by the end of the year only £132k will be required to support modest improvements and maintenance programmes.

9.2 Once again, the proposed capital programme for 2023-24 is generally relatively modest at an estimated £640k to support general schemes such as the re-use scheme at £200k, an upgrade of the Authority's ICT infrastructure at £100k and various repairs and upgrades. The programme has one significant scheme included which is the development of a significantly improved HWRC site in St Helens. This prospect is included in the programme re £2M in 2023-24 and an additional £2M in 2024-25. The scheme has not yet been fully developed or agreed by Members and will be the subject of further reports should it be progressed. However, including provisional amounts in the capital programme at this stage will enable the scheme to progress should Members approve proposals further into the year.

9.3 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.

9.4 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.

9.5 In addition, Members' attention is drawn to the prospect that the Government's strategic proposals for waste developments may require significant infrastructure changes in the medium term. Should this prospect be realised Members may be asked to consider further Capital Programme proposals at a future stage.

9.6 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 2023-24

10.1 The Authority is asked to set a revenue budget of £78,892,527.

11. Levy 2023-24

11.1 The Levy for 2023-24 proposal is as follows:

- An overall 0.12% reduction – setting the Levy at £78,892,527.

11.2 Members are recommended to accept the 0.12% decrease 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.

Merseyside Waste Disposal Authority
3rd February 2023

REVENUE BUDGET 2023-24

1. Introduction

1.1 The Authority is required by statute to set its Levy for 2023-24 by 15th February 2023. 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 2023-24 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 there are sufficient reserves to provide significant cushioning to fund a large gap between the Authority's budget and the Levy. The Authority confirms that the Levy needs to continue to catch up with the Authority's budgeted costs. Whilst the Authority has done all it can do to mitigate costs and therefore keep the proposed rise down to -0.12% 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 2023-24is considered against a table of components with the Authority's position identified against them.

COMPONENT	COMMENTS
Availability of reliable information	The budget is based on realistic assumptions of pay, price and contract increases, and tonnage throughputs to recycling or disposal. This is coupled with an assessment of the major financial risks and how they are to be managed.
Guidance and strategy	The Authority's Financial Procedural Rules cover the management of its budget. The Budget timetable is well communicated and the Strategy is clearly outlined
Corporate approach and integration	Section managers identify budget pressures and risks at an early stage in the process, particularly the financial effects of contract costs, waste management contracts and processes as well as litigation risks.
Flexibility	Flexibility in budget management is built into the Authority's Constitution.

Monitoring	The Authority operates a quarterly published monitoring regime, whilst monthly monitoring is undertaken by Section Managers and the Business Support Manager.

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

2. Revised Budget 2022-23

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 2022-23 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £78,376,135 (n which is a decrease of £3,738,588 from the Original Revenue Budget for 2022-23 (Column 1 of the respective pages of Appendix 1). This reduction in the overall costs, which helps support the revised estimate, means that the Treasurer can propose making the following adjustments to balances and reserves.

	£000
General Fund – removal of planned contribution from General Fund together with a £612k contribution to the Fund	+3.739

2.3 The total movement is £3.739M reduction in contribution from balances as there was initially planned to be a high contribution to balances in the current year.

2.4 The year end balance on the General Fund is forecast to be at £9.266M at 31 March 2023. These are the total resources available to the Authority at the end of 2022-23 and a significant proportion of this balance is proposed to be utilised in cushioning the budget in 2023-24. There are also a number of significant financial challenges that are on the horizon and for which the Authority will need to be fully prepared.

2.5 The main areas for prospective savings (-) or increased costs (+) in the Revised Revenue Budget for 2022-23 are as follows:

	£000
Establishment – increase in cost of employees (78k), supplies and services (42k), Agency costs (20k), and Service Developments (64k) offset by increase in income (17k).	+189
Contracts – the underspend reflects the reductions in tonnages compared with estimated tonnages (a Covid reduction effect) together with increases in the income arising from the contracts. The WMRC was estimated to be £1.715M lower in cost and the RRC £2.153M.	-3,868
Closed landfill – key changes here include a raised cost of maintenance at £53k, offset by a reduction in electricity costs of £112k, together with other smaller changes.	-65
Rents, & Rates – the savings here arise from a reduction in rent (1k), a reduction in estimated rates (43k) a reduction in the cost of asset valuations (10k), offset by the contribution required for the Bidston Fire suppression system (included for 2 years at a total of 6k),	-48
Recycling credit payments – no significant changes	0

Strategy & resources, Data processing, Behavioural Change, Permits – the key change here is to include an amount for the development of an ICT strategy (60k) offset by smaller savings.	+54
Interest – charges from the provider	0
Capital accounting – minor adjustment	0
General Fund – reduction in planned contribution to support required	3,738
TOTAL	0

3. Proposed Budget 2023-24

3.1 The proposed budget for 2023-24 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £82,372,796 before a proposed General Fund contribution of £3,480,269. This includes the anticipated levy decrease of 0.12%.

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

	£000
Establishment – the changes reflect an anticipated increase in staffing costs (203k), increases in premises costs (11k), increase in transport costs (2k), an increase in the cost of supplies and services (36k) an increase in Agency costs (20k) and the costs of the service developments approved by Members in November 2022 (200k).	+435

Contracts – the cost changes reflect the increased costs of the WMRC (2.697M), offset by savings arising from the RRC (2.569M) some of which arise from third party income from the contract.	+128
Closed landfill sites – an increase in the likely maintenance costs of (30k) is offset by a reduction in the estimated costs of electricity (-111k) and savings in the costs of dealing with trade effluent (-11k), offset by small cost increases elsewhere.	-95
Rents & rates – a small decrease in the costs of rent (-1k) and the costs of rates (-2k) is offset by expected reductions in the costs of the interim asset valuation (+10k).	+7
Recycling credits –changes for most Districts compared with the prior year for most District Councils (Liverpool -130k; Wirral -84k; Sefton -156k; Knowsley -44k; St Helens -24k)	-439
Strategy and resources, Data processing, Behavioural change, Permit scheme – costs of providing the ICT strategy (+101k) and the cost-of-living fund (+100k)	+201
Interest payments (as set out by external provider)	+29
Capital accounting – adjustment in respect of Minimum Revenue Provision and depreciation	-7
Total net change in General Fund contribution (movement from a 3,128k contribution to the GF in original estimate –	-354

to a 3,480k contribution to GF to support the Levy for 2023-24)	
Levy change – estimated at -0.12% decrease overall	-95

3.3 The proposed Revenue Budget for 2023-24 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 The Authority's Balances are shown on the second page of Appendix 1 with the various amounts anticipated to be held at 31 March 2023 and the following year as follows:

	£M
General reserve at 31-3-2023	9.266
Proposed application of General Fund during 2023-23 to support the Levy	-3.480
General Reserve at 31-3-2024	5.786

3.5 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 0.12% decrease in the Levy for 2023-24, and looking ahead into the following two years it is expected that by the end of 2023-24 the General Fund will be at a level that is prudent, However, there are a number of challenges that the Authority is facing that are likely to require calls on this sum.

3.6 These challenges include the costs of a shared insurance claim from the RRC contractor, where they have estimated the Authority's share to be over £2.5M. The Authority will dispute the claim and the amount, but Members need to be aware that facing this claim may be challenging. There are also concerns over the potential that the Authority (along with others) may face the growing costs of the Governments plans to charge a levy on the generators of electricity. The contractor for the RRC would be affected by this, but as the change is statutory they may feel that they can pass those costs over to the Authority. Should this happen the Authority will need the reserves to provide for some of the costs and any legal challenge, Elsewhere, the WMRC is within six years of reaching its conclusion. Members will be asked to consider how the costs of preparing for the next iteration of this contract should be met, a contribution from the General Fund may be one consideration. In any event the Authority will need to maintain the General Fund at a prudent level to help it to meet some of these challenges.

3.7 While the planned balances for 2023-24 remain at adequate levels under the proposals considered earlier in this report; it will be important to rebuild and retain those balances into the future otherwise the Authority's financial position could become more precarious.

3.8 If the proposals for the Levy for 2023-24 are approved the Authority will be left with over £5M of balances at the end of 2023-24, this is considered to be prudent for the financial management of the Authority.

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.

Merseyside Waste Disposal Authority
3rd February 2023

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.	Medium
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
Statutory changes	Where costs are passed on to the contractor they may be able to pass those on to the Authority if these are regarded as changes in the law	high

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 £2.64M has been included in the capital programme to allow for these developments to take place should the opportunity arise. Where this happens, a report will be made to Members seeking approval for the plans prior to any development taking place.

4.2 The whole of any capital programme spending requirements in the future will need to be funded from an extension of the Authority's Prudential Borrowing.

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:

13 April 20233	12 October 2023
18 May 2023	16 November 2023
29 June 2023	4 January 2024
43 August 2023	8 February 2024
7 September 2023	7 March 2024

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 0.12% decrease

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.

2023/24 LEVY PER DISTRICT COMPARED TO 2021/22 LEVY				
Tonnages Full Yr 21/22				
	2022/23 Levy £	**Proposed Levy 2023/24 £**	**Increase/ Decrease (-) £**	**Increase/ Decrease %**
Knowsley	8,778,913	8,654,320	-124,593	-1.42%
Liverpool	27,285,102	27,798,539	513,437	1.88%
St Helens	9,374,521	8,878,268	-496,253	-5.29%
Sefton	15,876,545	15,849,243	-27,302	-0.17%
Wirral	17,673,380	17,712,156	38,776	0.22%
	78,988,461	**78,892,526**	-95,935	-0.12%

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.

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 2023-24 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 2023-24 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 2023-24 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.