MWDA OUTTURN REPORT 2022-23
WDA/14/23

Recommendation

That Members:

1. Note the final outturn position with regard to the Authority’s Revenue and Capital Expenditure for 2022-23; and
2. Note the final outturn with regard to the Authority’s Prudential Indicators as included in Appendix 3.

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MWDA OUTTURN REPORT 2022-23
WDA/14/23

Report of the Treasurer

1. Purpose of the Report

1.1 To advise Members of both the final outturn with regard to the Authority's Capital and Revenue expenditure in 2022-23 and the position of the Authority's reserves. The final outturn positions for the Authority's Prudential Indicators are included in the report for Members to note.

2. Background

2.1 The financial position of the Authority is reported to Members as set out in the Financial Instructions which support the Financial Procedural Rules. This report is compiled at the end of the year and shows the final outturn position.

2.2 The Authority is required to consider the final outturn position on the Prudential Indicators as a part of the statutory Prudential Code for Capital Finance. The outturn position for the Prudential Indicators is shown in Appendix 3 compared with the Revised Estimate for indicators approved by the Authority on 3rd February 2023.

3. Key areas of the report

Capital expenditure

3.1 The Authority's capital programme spending during the year was not very substantial, with the key area of expenditure coming from the planned replacement of water pumps at the Lagoon in Sefton Meadows (£84.5k); which was part of an agreed handover of flood management arrangements from Sefton Council to the Authority. Elsewhere the only other item of significance was a small contribution to the costs of installing electric car charging points at the Gilmoss facility (£18.75k). A de-watering programme of £30k was not completed in the year and so the capital programme for the year was underspent compared with the revised estimate by almost £29k.

3.2 All taken together the revised Capital Programme for 2022-23 was estimated to be £132k and the outturn delivery came to £103k. This amount has been funded from Prudential Borrowing as anticipated at the revised estimate stage.

Revenue expenditure

3.3 The Revenue Outturn is attached at Appendix 2 and shows the Original Approved budget as well as the Revised Estimate (approved at the Authority Budget meeting on 3rd February 2023). The Outturn Expenditure for 2022-23 is shown and the comparison of that with the revised estimate is shown in the variance column which indicates where expenditure and income are higher or lower than anticipated.

3.4 The final Revenue Outturn shows that the Authority's General Reserve at the end of 2022-23 stands at just over £9.7MM, which is just over £1.1M higher than had been expected. The increase on planned balances confirms that day to day expenditure has been managed actively and the Authority was better off than expected at the revised estimate.

3.5 This improvement in the financial position at the end of 2022-23 will be very important in the current year. Of the balances there is already a commitment into 2023-24 for the Authority to contribute almost £3.5M from the General Fund to support spending in 2023-24. This commitment was made by the Authority to cushion the impacts of Levy increases on District Councils during 2023-24. The Levy change for 2023-24 in overall terms was limited to a 0.12% reduction, which was only possible by planning to use this part of the Authority's General Fund during the year. This approach may become unsustainable in future years if the amount of waste arising for the Authority to recycle and dispose of continues to increase.

3.6 Along with the rest of the country the Authority has started to move on from the unusual impacts of the Covid-19 pandemic. The increases in waste arising for disposal have begun to stabilise and to a degree fall back so that they are more in line with pre-Covid conditions. However, the return to pre-Covid conditions has not yet been certain or fully predictable, waste arisings patterns continue to settle.

3.7 The overall outcome contains a number of variances from the individual revised estimates and the main differences can be analysed as follows:-

	£000 (under)/over spend
Establishment	
The underspending here generally reflects savings across the board on the administration of the Authority including: employees (£2k), Premises (£27k), Supplies and services (£46k), year-end support (£30), Support (£35k), Service development (£65k), these amounts were offset by an addition al cost of £2k on transport, £13k on agency costs and £3k on performance improvements. In addition, due to savings in the overall costs there was a lower income receivable from Halton Council of £15k.	(172)
Contract payments	
The variation in the contract costs of £270k represents a small amount over a 0.15% increase compared with net budgets.	104
The WMRC contract was underspent in the year (£534k) after income from trade waste (+£35k) and Halton Council (£605k) are taken into account. This demonstrates very effective budget control in the volatile conditions the contract operates under.	
For the RRC there was an overspend (£638k), and again this reflects the effective contract management on a gross cost of over £42.8M. Halton's costs under the contract were lower than projected (£436k), which is recovered from Halton. The amounts of repaid support for Covid tonnes was down from an estimated £1.1M to only £378k which was a saving for the Authority.	

Closed landfill site management	(137)

The Authority has made savings on the cost of the Closed Landfill Sites it manages. There were savings in maintenance (£107k), a saving in the cost of electricity (£3k) whilst the costs of trade effluent and other costs were £2k higher than budgeted. The savings from analyst fees (£6k) continue to reflect a change in supplier following a contract review. There were also savings on environmental compliance (£6k) and tools and equipment (£16k) and the cost of the Environmental Monitoring System audit and accreditation (£1k).

Rent and rates	(29)

One of the main savings here were made from a reductions in the costs of rents (£4k). Elsewhere the Assets Survey costs were lower than expected (£6k) and there was a small amount of Covid related income that came in during the year (£19k). Meanwhile the final rates costs were £3k more than budgeted.

Recycling credits

There is a reduced cost here which reflects fluctuation in the tonnages recycled by the constituent Districts compared with estimates and for which credits may be claimed (Liverpool -£490k; Wirral +£160k; Sefton -£80k; Knowsley +£12k; St Helens +£169k)	(229)

Strategy & Resources

The strategy update gave a saving (£25k), the policy and research budget was unspent (£2k).	(27)

Data processing	(52)
The data processing software budgets were underspent at the year's end. The key underspend was in respect of the ICT strategy, which was budgeted for,but for which the main expenditure had not taken place by the year end (-£51k).	
Behavioural Change	
The Behavioural Change Programme was delayed during 2022-23, both as a result of the lingering impacts of the Covid pandemic which made it difficult to ensure plans could be implemented, and staffing changes. This has had the effect of reducing the expenditure planned for the year on Communications (£21k) Education (£25), Circular Economy initiatives (£30k), Re-Use schemes (£10k), the Waste Prevention Programme (£294k), Home composting (£45k) and Recycling at HWRCs (75k). This was slightly offset by a small increase in Community Funding (+£18k) which represents a timing difference as prior year schemes were completed later than planned.	(482)
Permit scheme	
The savings arose from the suspension of the Permit Scheme which was formally ended during the year.	(21)
Interest costs	
The higher than estimated interest payable on the Authority's loans.	117
Technical accounting	
The combination of depreciation (-£286k) and Minimum Revenue Provision (MRP) (+104) to pay for the costs of assets used in the delivery of the Authority's services	(183)
Net cost saving	(1,111)

3.8 The section at the end of Table 2 of the summary in Appendix 2 shows the Authority's Earmarked and General Balances, together with the movements in and out during 2022-23.

3.9 A summary of the Balances at 31 March 2023 with a comment about why the amounts are set aside is shown as follows:

	£M
General Reserve To cover risks to the Authority in carrying out its functions, and in line with the budget strategy to mitigate the impact of the Levy on constituent District Councils.	8.046
Add additional contribution during 2022-23	1.723
	9.769

3.10 The total General Fund reserve available to the Authority is £9.769M, which is planned to be lower by the end of 2023-24 as the budget for 2023-24 was planned on the basis of a one off contribution to support the cushioning of the Levy of £3.480M – bringing the planned balance at the end of 2023-24 down to £6.289M, which is considered to be a prudent level of balances for the Authority.

3.11 There are a number of other factors that Members should be aware of in considering the balances available at present.

3.12 The Authority is in correspondence with the Resource Recovery Contract SPV Merseyside Energy Recovery Ltd (MERL – the contractor) over a claim by the contractor that the Authority should pay a substantial amount towards shared insurance costs. The cost of insurances continue to grow significantly and the contractor's view is that under the terms of the contract, MRWA are liable for a share of additional insurance costs over a several year period. The Authority's view is that a large part of the contractor's claim is not correctly applied in strict accordance with our interpretation of the contract. Should the contractor's position be agreed as correct the Authority may be required to pay a significant amount, over £3.5M (as of the latest two claims) with a potential further claim later this year, towards the shared insurance costs, however, that prospect is far from certain as the Authority has independent advice that the claim may not be a correct interpretation of the contract drafting on the contractor's part.

3.13 The Authority and the contractor (Veolia) are about to finalise an agreement which reflects a contractual clarification in respect of HWRC income that may be due to the Authority. The potential income reflects a review of an interpretation of the contract drafting that is now accepted by both parties and which is expected to result in additional income for the Authority which goes back to the 2019/20 contract year. This agreement is not yet finalised, but may bring a potential additional income to the Authority of up to £1M, as well as the potential for an amount of additional income on an ongoing basis. The amount is not yet certain and the agreement is not yet finalised, however, should any income be realised it will be reflected in the Authority’s revised estimates.

3.14 Under the terms of the Resource Recovery Contract (RRC) the contractor (MERL) is contractually bound to share additional third party income, after certain guaranteed levels of income have been achieved by the contractor. The contractor and the Authority recognise that in 2022-23 those levels of guaranteed income have been achieved and that income sharing mechanisms in the contract will begin to bring shared additional income to the Authority. The year end reconciliations of the contract payments remain underway, and this year the potential amounts due to the Authority, are complex and take many months to finalise. When the year end position is finalised it is likely that the Authority will benefit from a substantial share of additional third party income, over and above any that has already been anticipated. The calculations remain under discussion and Members will be provided with an update as part of the Authority’s revised estimate process further into the year.

3.15 In addition the Authority is facing the prospect of renewing the provision of ICT services. Whilst there are both capital and revenue budgets that have been estimated to provide for the renewal there is a prospect that this may not be sufficient. The costs during 2023-24 will depend upon the timing of any replacement, but in the event that the current budget provision is not sufficient Members will be advised and a further contribution from the General Fund may be required at the revised estimate stage of the Authority’s budget setting. Thereafter any further budgetary costs will be included in the estimated budget costs for the next and ongoing financial years.

3.16 At the same time it is also likely that there will be some additional costs arising from the response to the external auditor's recommendations, where additional accountancy support will be required. There is already an annual budget provision for this support, which is not always utilised, and therefore contributed to the growth of the General Fund. This year there is likely to be a call on that budget and potentially a further call on the General Fund to pay for those costs.

3.17 None of these matters are certain or finalised and the Authority still requires a prudent level of balances to ensure the burden of the Levy on District Councils can be managed in a planned way. In addition as the Authority moves towards decisions over the potential procurement or roll forward of the WMRC it is likely to need a specific fund set aside to finance any additional costs associated with that development over the next few years.

Prudential indicators

3.18 The Authority set its Prudential Indicators in the budget meeting for 2022-23. Appendix 3 shows the actual outturn against the revised Indicators. It is important for Members to note that the Authority remained within the boundaries of the Prudential Indicators and the borrowing framework authorised through their approval.

4. Risk Implications

4.1 The reserves have been set out in the previous section of the report, but there is a need to check on the level of the General Reserves and their adequacy to cover possible financial risks and challenges to the Authority in the coming years.

4.2 The General Reserve is likely to face significant pressure during the year 2023-24 as the additional costs of significant increases in waste arisings are realised.

4.3 The following risk assessment has been made:

Identified Risk	Likelihood Rating	Consequence Rating	Risk Value	Mitigation

Unforeseen costs of waste management contracts	4	4	16	General Fund – deploying reserves to support additional costs.

4.4 The level of balances although adequate at the moment is at risk of becoming lower than required. The Authority's projected expenditure is less certain at the moment than we would have hoped, as the costs and consequences of changes to working arrangements and waste arisings, which appear to be growing, are likely to be uncertain for the medium term. The Authority will need to be wary of this in considering the levels of reserves planned for 2024-25 and in setting the Levy for that period to ensure the Levy income is able to remain in line with the Authority's likely costs.

5. HR Implications

5.1 There are no HR implications

6. Environmental Implications

6.1 There are no environmental implications

7. Financial Implications

7.1 The financial implications are set out in the body of the report.

8. Legal Implications

8.1 The legal requirement for reporting to Members on the position of the Authority in respect of its Prudential Indicators is met through this report.

9. Conclusion

9.1 The report identifies the financial performance of the Authority in the financial year 2022-23; it indicates the level of reserves and comments on their adequacy. The report also confirms the Authority has operated within the boundaries of its approved Prudential Indicators.

The contact officer for this report is: Peter Williams
7th Floor, Number 1 Mann Island, Liverpool, L3 1BP

Email: peter.williams@merseysidewda.gov.uk
Tel: 0151 255 2542
Fax: 0151 227 1848

The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.