

**MRWA LEVY AND OPTIONS**  
**WDA/27/24**

**Recommendation**

That Members:

1. Consider the proposals for the Authority's Levy for 2024-25; and
2. Agree the way forward prior to setting the Levy

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**MRWA LEVY AND OPTIONS****WDA/27/24****Report of the Chief Executive****1. Purpose of the Report**

- 1.1 Members will recall that the Levy for 2023-24 was set with an overall reduction of 0.11%. This approach was made possible by planning to utilise a significant amount of the Authority's reserves.
- 1.2 The Levy strategy for 2023-24 means that there is a need to 'catch-up' in 2024-25 and beyond, and this was reflected in the Authority's budget report for 2023-24.
- 1.3 The need to catch up and match income with expenditure creates some issues for the Levy paying constituent District Councils as the scale of any catch up increase creates some financial pressures. Members are asked how they wish to respond to the pressures on Districts whilst ensuring the Authority's position does not create further pressures elsewhere.

**2. Background**

- 2.1 At the Authority's budget setting meeting on 3<sup>rd</sup> February 2023 Members agreed to a Levy that gave an overall reduction of 0.11%. This was made possible by planned contributions from the Authority's balances of £3.4M.
- 2.2 As a part of the Authority's budget report a forecast is always included of the likely impact on spending and levy for the next two years in the event that there are no other changes and based on an estimate of inflation at the time. For the year 2024-25, with nothing else changing and modest inflation forecast the impact of a reduction in the Levy for 2023-24 on 0.11% was that for 2024-25 a Levy increase of 7.45% was likely to be needed just to 'stand still'.
- 2.3 Since the budget was set in 2023 there have been a number of pressures and developments in the waste sector that Members may need to consider.

**3. Waste pressures**

- 3.1 Members will recall that at the workshop held on 3<sup>rd</sup> November 2023 a number of issues were raised in terms of pressures that the Authority

**Merseyside Waste Disposal Authority****5<sup>th</sup> January 2024**

would have to consider in setting an appropriate Levy for 2024-25. These are briefly outlined below and should be taken into account when considering an appropriate approach for 2024-25.

Issues	Detail
Contract inflation	Each of the Authority’s key contracts include provisions that they increase with inflation each year. (RPIx). During the summer of 2023 the prospect of double digit inflation was a concern for these costs. At the time the initial budget estimates were made the inflation figures were down on this but still at 6-7%, and that figure was reflected in initial estimates.
Negative Levy	The negative Levy for the current year has the impact of leading to a year where a ‘catch-up’ is inevitable. The consequence is that there is a pressure from the need to consider the impact of two years of contract inflation in a single period.
Budget pressures	The Authority has its own budget pressures. These arise mainly from the costs of dealing with waste streams, there is no significant reduction in waste overall, and there is currently little sign of behavioural changes that mean there is less of the more expensive residual waste to dispose of replaced by less costly recycling.
Turbine issues	In years when the Resource Recovery Contract is operating effectively there is a prospect of an income share, after the contractor’s income conditions have been met. A lengthy close down to maintain the Energy from Waste (EfW) plant, together with a repair being required on the turbine (that generates

	<p>electricity), mean that the contractor's income conditions are unlikely to be fulfilled and so the prospects of an income share in both the current and the next year are unlikely.</p>
Recyclate income	<p>As a part of the Waste Management and Recycling Contract (WMRC) the Authority can receive income from the contractor on an agreed basis. That agreement is considered every 5 years. At the time the initial budget was being prepared the five year recyclate income agreement was under consideration by both parties. The amounts being proposed by the contractor, and taking into account expected market conditions were lower than the Authority had been able to consider in the prior period. This meant that when the Authority was initially considering the budget proposals the income it could take into consideration was lower than had been experienced in the past.</p>
New contract	<p>The WMRC comes to a conclusion in 2029 (unless there is an agreed extension). It is incumbent upon the Authority to consider the procurement of services that will replace those it currently provides, likely with a more modern suite of services and provisions. In order to procure the contract the Authority understands that specialist external advisers are likely to be required over the next five years. These advisers will include legal, financial and technical advisers and are, over the period, likely to cost in excess of £7M. This sounds expensive but in the context of a contract that may cost over £800M over its</p>

	<p>lifetime, they are not considered excessive and given the contract value it is critical that we “get it right first time”. The Authority needs to work alongside its partners to find a way of financing these additional, but one-off, costs.</p>
Housing stock	<p>Working alongside District Council colleagues to understand their plans, it is clear that there is a prospect that over 40,000 new homes will be built across Merseyside in the medium term. For each of these homes there is also a prospect of an additional 1.1 tonnes of waste materials arising each year. So eventually there will potentially be an additional 40k tonnes for the Authority to deal with in the medium term. This makes it very hard to bring overall costs down</p>
Food waste	<p>One of the Government’s initiatives nationally is for the introduction of compulsory food waste collections by 2026. We are working with the Joint Waste Partnership to understand more of the implications of this for the Disposal Authority. Initial (and very outline) modelling, suggests that taking food waste out of residual and paying for treatment separately may give a small, but significant, reduction in the cost of dealing with residual waste under the current contract arrangements.</p>
Extended Producer responsibility	<p>This scheme was due to commence in 2025, but has been somewhat delayed, and may now start in 2026. In essence the scheme proposes charging producers of goods a levy for the packaging they use, and paying that levy over to local government waste</p>

	<p>collection, and disposal authorities, to contribute to the costs of dealing with packaging wastes. The details of the scheme, how it works and most importantly the income the Authority may receive under the scheme are, as yet, unclear but will focus on efficiency and effectiveness of waste services.</p>
<p>Deposit return scheme</p>	<p>The Government has proposed introducing a Deposit Return Scheme (DRS). Under this scheme members of the public who purchase plastic bottles, and tin cans with produce inside, may return those bottles and cans (once the produce is consumed) in return for a payment from the place they return the bottles/cans to – a deposit return scheme.</p> <p>For the Authority this will provide a challenge. There will be a likely very significant reduction in the amount of plastic bottles and metal cans received at the Materials Recovery Facilities. However, there will still be some in the waste streams, so little prospect of being able to reduce costs. At the same time these materials are some of those where the Authority can generate some income from their sale. Taking the bulk of these products away from the Authority will mean that income to offset costs will be lower. And at the same time the Authority will still have to recover glass and send that for recycling, which remains relatively expensive.</p>
<p>Government strategy (Simpler Recycling)</p>	<p>The Government Strategy for Simpler Recycling sets out a broad range of materials that it will expect collection</p>

	<p>authorities to collect and the Waste Disposal Authority to deal with. The range of products is more extensive than those currently recycled. The impact on the Authority will be that the MRFs will either have to be reconfigured, or even completely redesigned/rebuilt/refurbished. Whichever way the Authority and its partners respond to the proposals, there will be additional costs.</p>
Zero waste	<p>The Authority and its partners are working towards a vision where there is zero (avoidable) waste. This vision is laudable, but to achieve it will require investment across each stage of production and consumption so that the hoped-for outcome may be achieved. In the end this will require behavioural change by the public on a scale not seen previously, to ensure that less and less waste, whether residual or even recycling, appears for the Authority to deal with. Encouraging behavioural change, at scale will not be a low cost choice.</p>

#### 4. **Budget issues**

- 4.1 In light of the pressures and conditions that the Authority faces an initial budget and levy proposal was prepared. That proposal has been shared with District Council Treasurers as very much a work in progress and included the Levy projection at a 7.45% increase year on year overall. Because of the Levy mechanism the increase falls differently on each of the constituent Councils.

<b><u>2024/25 LEVY PER DISTRICT COMPARED TO 2023/24 LEVY</u></b>				
<b><u>Tonnages Full Yr 22/23</u></b>				
	<b>2023/24 Levy</b>	<b>Proposed Levy 2024/25</b>	<b>Increase/ Decrease (-)</b>	<b>% Increase/ Decrease</b>
Knowsley	8,654,320	9,490,933	836,613	9.67%
Liverpool	27,798,539	29,299,660	1,501,121	5.40%
St Helens	8,878,268	10,143,704	1,265,436	14.25%
Sefton	15,849,243	17,087,212	1,237,969	7.81%
Wirral	17,712,156	18,751,806	1,039,650	5.87%
	<b>78,892,526</b>	<b>84,773,315</b>	<b>5,880,789</b>	<b>7.45%</b>

- 4.2 During discussions with the Treasurers group it was made clear that the Authority would continue to work with them and to review its budget pressures and assumptions to establish whether progress could be made in reducing the Levy increase
- 4.3 As a part of this work the Authority took account of the more up to date inflation announcements and was able to revisit the key inflation assumptions in the proposed budget, bringing them down in the key contracts from 6-7% down to 4-5% which has been helpful.
- 4.4 At the same time the Authority has continued to discuss the prospects for income from the WMRC contractor and has been successful in achieving a proposed outcome that is considered significantly better than had been on offer and which does not attract the scale of risk that might have arisen had the Authority been forced down the path of a Market Test exercise, that carries no certainty of outcome or betterment.
- 4.5 Following this re-working of the budget there is a prospect that the proposed Levy increase could be held to nearer 5.25%, just over £1.7M lower than previously.

<b>2024/25 LEVY PER DISTRICT COMPARED TO 2023/24 LEVY</b>				
<b>Tonnages Full Yr 22/23</b>				
	<b>2023/24 Levy</b>	<b>Proposed Levy 2024/25</b>	<b>Increase/ Decrease (-)</b>	<b>% Increase/ Decrease</b>
Knowsley	8,654,320	9,289,583	635,263	7.34%
Liverpool	27,798,539	28,642,050	843,511	3.03%
St Helens	8,878,268	9,999,435	1,121,167	12.63%
Sefton	15,849,243	16,741,902	892,659	5.63%
Wirral	17,712,156	18,357,842	645,686	3.65%
	<b>78,892,526</b>	<b>83,030,812</b>	<b>4,138,286</b>	<b>5.25%</b>

4.6 The prospect of an overall Levy increase of 5.25% has been outlined to both Chief Executives and Treasurers from the constituent Councils. At the same time Authority officers have raised the prospect of making an additional contribution from the Authority's General Fund.

4.7 Were the Authority to approve an additional cushioning from the General Fund of just over £1.1M there is a prospect that the overall Levy increase could be held back to 3.75%, as shown below.

<b>2024/25 LEVY PER DISTRICT COMPARED TO 2023/24 LEVY</b>				
<b>Tonnages Full Yr 22/23</b>				
	<b>2023/24 Levy</b>	<b>Proposed Levy 2024/25</b>	<b>Increase/ Decrease (-)</b>	<b>% Increase/ Decrease</b>
Knowsley	8,654,320	9,161,500	507,180	5.86%
Liverpool	27,798,539	28,239,119	440,580	1.58%
St Helens	8,878,268	9,847,536	969,268	10.92%
Sefton	15,849,243	16,510,438	661,195	4.17%
Wirral	17,712,156	18,092,420	380,264	2.15%
	<b>78,892,526</b>	<b>81,851,013</b>	<b>2,958,487</b>	<b>3.75%</b>

4.8 Whilst the prospect of making a contribution from balances on a one-off basis may hold the Levy proposal down it could only ever be considered a one off and risks once again holding the Levy artificially low. It should also be noted that more than one of the Chief Executives voiced some concern over the prospect of utilising balances as a way forward.

4.9 Were the Authority to follow the approach set out above that involves utilising some of its balances to cushion the Levy it would leave the Authority in a reasonable position. The Authority's planned remaining balances would stand at just over £4M after making a contribution towards a separate fund to support the costs of the procurement of some £800k for

2024/25. The Authority's balances would remain prudent, but on the lower end of the scale. For the Authority having a reserve to call on can be important as what may seem insignificant changes in waste flows can have very costly consequences.

## **5. Future options**

- 5.1 As a part of its planning for the future the Authority's Chief Executive has been asked by the District Chief Executives to identify whether there are options for cost reductions or mitigations that could be identified going forwards.
- 5.2 In considering cost reductions and mitigations the Chief Executive has been clear that any savings proposals made would be subject in each case to member approval at the Authority and in particular where they involve service changes could not simply be implemented, without Member consideration and approval.
- 5.3 The Chief Executive is able to refer to work carried out on behalf of Districts from 2016, the Strategic Review. The findings of the review by Local Partnerships were re-considered by them during the last year and they remain relevant in today's world as little of consequence has changed. The recommended savings proposals were not agreed at the time, but will inform future considerations in respect of service changes and the potential for future reductions in costs.
- 5.4 In order to ensure there is a strategic approach to the way the waste system and infrastructure across the City region develops the Chief Executive is proposing that service design and delivery options are considered in a holistic way over the short to medium term To that end the work with the Joint Partnership will continue to be used to identify the key strategic developments needed at District level and across the City Region. This will enable the Authority to develop its strategic response to the service changes and demands at District Council levels.
- 5.5 Developing the Authority's responses to the City Region's strategic waste needs will inevitably lead the procurement approach required over the medium term to enable the Authority to provide options for service provision that ensure best value for the City Region at a time when demand is high and resources are stretched.
- 5.6 In presenting options to Members officers will seek views on whether to pursue the proposals and which ones in particular. Further detailed work

will then be required to analyse both the reality and extent of any proposed saving and to assess the detailed costs and implications of each proposal. Where appropriate further reports will be provided for Members to consider setting out the impacts of any service change. All the time Members will recognise that the requirements of the new procurement will become increasingly important and that strategic decisions will lead to a more effective outcome.

## **6. Risk Implications**

6.1 The following risks have been identified in relation to the development and implementation of the Authority's corporate planning processes:

<b>Identified Risk</b>	<b>Likelihood Rating</b>	<b>Consequence Rating</b>	<b>Risk Value</b>	<b>Mitigation</b>
Failure to agree levy proposal	2	5	10	The Authority will agree a Levy that ensures a balanced budget
Failure to consider savings options	2	4	8	The Authority will consider savings options and whether they should be pursued

## **7. HR Implications**

7.1 No direct implications for MRWA from this report..

## **8. Environmental Implications**

8.1 No new environmental implications from this report.

## **9. Financial Implications**

9.1 The financial implications are considered in the levy options set out in the report.

## **10. Legal Implications**

10.1 The Authority is legally required to approve a Levy each year.

## **11. Conclusion**

11.1 Members are asked to:

- Consider the proposals for the Authority's Levy for 2024-25; and
- Agree the way forward prior to setting the 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.