MRWA BUDGET 2024-25
WDA/29/24

Recommendation

That the Authority:

1. approves the revised budget for 2023-24;
2. approves the revenue budget for 2024-25;
3. considers the Levy proposal set out in Appendix 2 to this report and agrees the proposal for a Levy of £81,851,013;
4. authorises the Levy to be made on the constituent District Councils for 2024-25; 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 2024-25
WDA/29/24

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 The year to date has seen the Authority working closely with District Council partners in the Joint Waste Partnership to identify ways of working ever more closely to ensure the waste system is as effective as it can be. This joint working arrangement is and will be ever more important as the Authority and its partners will face a complex set of challenges in the near future as multiple changes to the way that waste is collected become a reality. The way the Authority and the City Region responds to these challenges will be important to ensure improvements can be achieved.

2.3 Alongside the numerous changes that will be made to the way waste is collected and disposed of, another challenge for the Authority will be the conclusion of one of the contracts that provides waste services for the Region. The Waste Management and Recycling contract reaches the end of its initial term in just over five years time and the Authority will need to establish what arrangements it should put in place to provide services thereafter. This procurement will involve close working with District Council partners to establish what the best approach will be in a changing environment to ensure the most appropriate and cost effective solution is put in place.

3. Contract arrangements

3.1 The Resource Recovery Contract (RRC) enables the Authority to dispose of most of Merseyside's residual waste through an Energy from Waste (EfW) plant. An amount is still disposed of in landfill or other alternative disposal facilities, for example, when the EfW is closed for maintenance, but both MRWA and the contractor are committed to seeking ways to reduce landfill disposal, with other arrangements (including alternative EfW) being explored. The contract takes all the residual waste delivered by the constituent District Councils and Halton Council for disposal.

3.2 The RRC 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 steam and power.

3.3 The EfW plant itself has had a number of technical challenges over the years and in consequence MERL and its contractor Suez took a reasonable decision to extend the maintenance closedown in 2023 for a longer period than it usually would. This longer closedown has enabled the contractor to review and renew parts of the plant that have been seen as a cause of unscheduled closedowns. By completing a longer piece of maintenance the contractor expects that there will be fewer unscheduled breakdown periods in future.

3.4 During the closedown periods the contractor is in close liaison with the Authority, particularly as they are periods where waste is transferred to other facilities (including landfill) and it can become very expensive for the contractor.

3.5 When the EfW is out of service the contractor's costs are increased, not just by the need to send waste to landfill, or other disposal points, but also because they have to make additional payments for transport as the Rail Transfer Loading Station (RTLS) at Knowsley cannot be fully utilised.

3.6 Where the EfW is down for any length of time the contractor (and to an extent the Authority) also suffers a loss of income, as it is unable to sell excess capacity to third parties in need of disposal and neither can it raise income through sales of electricity. Therefore this year's close down, although for longer than usual can be seen as a considered response to enable the whole system to work more effectively.

3.7 Unfortunately during the most recent maintenance shutdown period there has been an additional unforeseen problem at the EfW plant. A key part of the plant's function is to generate electricity. This electricity generation is enabled via a large turbine; as part of their maintenance review the contractor identified a problem with the turbine, and it has had to be removed and repaired (or replaced) before the plant can generate electricity. This is a significant and technical maintenance issue for the contractor. Whilst we are advised that this will not impact on the EfW's capacity for waste disposal, the absence of a properly functioning turbine means that there is no further electricity generation whilst it is offline. The absence of electricity generation has an impact on third party income and means there is less likely to be an additional income share for the Authority.

3.8 The RRC has been identified independently (and reaffirmed recently by Local Partnerships) as a good deal for the Authority and the District Councils. In the future in order to enable the contractor to have the potential to generate significant additional income for the contract (and potentially for sharing with the benefit for MRWA) the Merseyside and Halton Councils' residual waste tonnes will 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.

3.9 The other key contract is the Waste Management and Recycling Contract (WMRC) operated by Veolia ES Merseyside and Halton (Veolia). The WMRC includes the provision of transfer stations, waste transport, household waste recycling centres (HWRCs), 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.

3.10 The WMRC provides 16 HWRCs across Merseyside and Halton and this remains a very well used service which is popular with the public. The introduction of an on-line system for managing the number of visits by commercial style vehicles continues to help manage the waste received at the sites. The HWRC network is successful and the contractual recycling rates are achieved across the estate. As a part of the procurement exercise that is commencing the Authority and partners will review the HWRC services and sites to ensure that the best provision can be achieved for Merseyside and Halton.

3.11 The WMRC provides for the Materials Recovery Facilities (MRFs) at Bidston and Gillmoss that are used to separate and sort the deliveries of co-mingled dry recyclable materials from District Councils (excluding St Helens). Whilst these plants are effective in separating the recyclable materials delivered by Councils the levels of contamination in those deliveries continues to cause some problems. Where contamination occurs the recyclable materials can be less pure and can raise a lower price on the open market. Contaminated material collected at the MRFs also has to be sent on for disposal to the EfW, meaning additional costs arise from double handling of the same materials. At the same time the recycling markets continue to be volatile and the amount of income raised and shared with the Authority will be impacted.

3.12 Despite the issues outlined above, 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 re-use and 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, faces ever more difficult changes in the levels of funding available. Across England a small number of Councils are facing the prospect of effectively declaring that they have run out of money and Merseyside and Halton Councils are working hard to avoid that prospect. 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 that environment the Authority has been working alongside the Council Chief Executives and Directors of Finance to enable them to understand what the Authority's financial position is and the prospects it is facing. This discussion and consultation has been led by the Chief Executive and it is clear that the good working relationship that has been established has enabled each party to understand the levels of demand that face in the next budget round.

4.3 In reviewing the services that they are able to provide the Councils have asked the Authority to consider where and how it could make savings. The starting point for this is the Strategic Review from 2016, which contains some proposals for the Authority to review. However, working on these proposals would take a significant resource at a time of other resources intensive demand and would be unlikely to deliver savings of a significant magnitude and in any event not within the next budget round. It is likely to be a better use of the Authority's resources to concentrate on the service design for the next procurement, which will be done alongside the Councils and will aim to achieve even better value for money.

4.4 In the medium term all collection Authorities are likely to face significant collection cost increases as they respond to the national Government agenda including mandatory food waste collections, the prospect of consistent collections being introduced and the demands of the Extended Producer Responsibility (EPR regime) as well as the proposed Deposit Returns scheme which will require all of them to review the way that they provide collections.

4.5 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.

4.6 This led to an approach to the Levy for 2023-24 which meant that it was artificially low, a reduction overall of 0.11% that was funded from a significant contribution from balances. The problem with that approach is that it created a need to balance income and expenditure in future years. With no prospect of a serious reduction in the amount of residual waste arising across Merseyside and Halton the costs of the waste being dealt with are not able to reduce, therefore the prospect of another increase in the Levy is inevitable.

4.7 As a part of the budget exercise for 2023-24 the Authority projected the amounts of monies it may expect to need for 2024-25 and beyond. With no other changes to the Authority's activity a Levy rise for 2024-25 of 7.45% was projected, to enable a catch-up and for income and expenditure to be in balance once again.

4.8 In the months and weeks running up to Christmas the Chief Executive has worked alongside other Chief Executives to explain the challenges being faced and to identify future options for the Levy for 2024-25.

4.9 Eventually after a series of discussions the proposed level of Levy change was that after a relatively affordable contribution from MRWA balances, on a one-off basis, the overall Levy would be increased by 3.75%. This proposed increase in in the Levy meant that for each of the constituent District Councils, under the existing Levy mechanism, they would see an increase in their Levy charge for 2024-25. That proposal has been accepted by Council Chief Executives and forms the basis of the budget proposals for MRWA during 2024-25. The proposed levy has also been discussed and agreed at a special meeting of the Authority held on 5th January 2024.

Climate change and zero waste

4.10 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 2024-25 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.

4.11 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.

4.12 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 prioritises actions on climate change and zero waste.

4.13 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 hub;
- Reviewing low carbon energy opportunities at facilities operated on behalf of the Authority;
- Reviewing fleet fuels and low carbon transport 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;
- Reviewing water and energy savings opportunities at closed landfill sites;
- Identifying external funding opportunities for waste and carbon reduction; and
- Work to develop mattress re-use and recycling schemes.

4.14 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 Zero Waste Community Fund; and
- Further investment in moving towards a Circular Economy.

4.15 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 2023-24 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 2023-24 is likely to be £79.922M, which is lower than originally agreed and enables the Authority to plan to take £2.345M less support from the General Fund than had been expected.

5.2 For the revised budget the Authority will be able to move from a position where there was due to be a planned contribution from balances of £3.4M, to a position where the contribution from balances is reduced to £1.1M. 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 £7.6M. Of that amount a contribution, of almost £2.35M is proposed to be used to cushion the impacts of the Levy in 2024-25, leaving a balance of almost £5.0M in the General Fund. Of this £5M is it proposed that £1M is set aside to fund the initial costs of the procurement for 2024-25, leaving an amount of £4M available for General Fund purposed. This is considered to be a prudent level but will be required given the potential challenges the Authority faces over the next two years.

5.3 The Authority's proposed budget for 2024-25 is presented at a time when the Authority faces significant financial challenges including:

- Contract inflation
- Turbine issues
- Recyclate income
- Contract procurement
- Housing stock growth
- Food waste
- Extended producer responsibility
- Deposit return scheme
- Simpler recycling
- Zero waste

5.4 These matters have been identified for Members in the Levy options report from 5 January 2024 and were discussed in more detail.

5.5 Waste arisings remain relatively 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.

5.6 The prospect of longer-term changes in waste flows is unlikely to be achievable at a lower cost, unless there is a significant move away from residual waste. Without a significant reduction in residual waste then large scale income sharing arising from reduced waste delivered by the Authority is less likely. If less residual waste were to be delivered it could free up space for third party commercial wastes in the EfW providing the income share that was anticipated when the contract was 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 continue to review services with a focus 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 five 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 and volatility of pricing that arises from the sale of recyclable waste materials. Reaching agreement with the contractor over the income for the contract can lead to a complex discussion and it is important to balance risk against certainty. If too much emphasis is placed on risky assumptions the Authority could ultimately fail to achieve its income projections, for example. These discussion have been difficult but in the end have provided a positive, balanced outcome.

5.9 The impacts of Climate Change and the Authority's declaration of a Climate 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. <u>The Levy Mechanism and recycling credits</u>

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 2023-24 the following amounts were provided:

	£M
Amount included in Levy via tonnages	**(4.849)**
MWDA Expenditure on Recycling Credits	**4.849**

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 2024-25, if recycling credits were to be removed, the headline impact would be to reduce the Levy by £4.887M. The net effect on Districts overall would be zero, however, as the Authority would cease to pay out the same sum £4.887M 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 £4.887M 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 is working with the Joint Waste Partnership and District Council Treasurers to review the Levy Mechanism so that it can provide a different way of dividing the costs of the Authority in a way that goes to support the response to climate emergency declarations. Members will recall 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 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 recyclable materials.

7.3 Elsewhere the Authority and the contractor are in a steady operational position for the operation of the Resource Recovery Contract (RRC), however, with continued high waste flows 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. The Authority is actively managing its contracts and its costs.

8. Budget options

8.1 The proposed budget was discussed by Members at an Authority meeting on 5th January 2024. Little has changed since then and the proposals made in more detail in this report and the appendices reflect the position as agreed by Members.

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 potential 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 increase, at 3.75% as shown in the table below:

2024/25 LEVY PER DISTRICT COMPARED TO 2022/23 LEVY				
Tonnages Full Year 2022/23				
	2023/24 Levy	**Proposed Levy 2024/25**	**Increase/ Decrease (-)**	**% Increase/ Decrease**
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%
	78,892,526	**81,851,013**	2,958,487	3.75%

8.7 It is proposed that the Authority sets the overall Levy increase for 2024-25 at 3.75% which is possible with affordable one-off funding from the Authority's General Fund.

8.8 The effect of keeping the Levy increase to 3.75% has a knock-on effect on the future year's Levy plans, as shown in the table below:

Levy projections at 3.75%, 6.7% and 2.9%

	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M
Projected cost of service	81.851	87.580	90.089
Levy – projection	81.851	87.580	90.089
Net expenditure position	**0**	**0**	**0**
Levy increase	**3.75%**	**6.7%**	**2.9%**

8.9 The Levy projection at 3.75% changes the future levy projection and because of the one off support this year, cushioning the Levy for 2024-25 there is a likelihood that for 2025-26 there will be an element of catching up, with an outline projection for that year of a 6.7% overall increase, while for 2026-27 the likelihood is that a more modest increase of 2.9% 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. Nor are the prospective levy changes made with any reference to the service challenges and changes mentioned earlier in the report.

8.10 The budget for 2024-25 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 will need to be reviewed.

8.11 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 2024-25 and the prospect of a balanced budget and financial position going forward, the change in level of Levy Members should consider is an increase of 3.75% in overall terms.

8.12 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.

8.13 The Authority will monitor the financial position very carefully over the next year to ensure it mitigates as far as it reasonably can 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 Capital programme for 2023-24 has remained at a very modest level and it is anticipated that by the end of the year only £120k will be required. Of the programme £100k is anticipated to enable the Authority to procure ICT equipment as it moves to a new supplier. The remainder will support works on the HWRC infrastructure review.

9.2 Once again, the proposed capital programme for 2024-25 is generally relatively modest at an estimated £2.158k to support general schemes including: improvements to HWRC access management (£20k); HWRC Strategic review, including upgrades and maintenance (£285k); potential infrastructure changes including Carbon Reduction schemes (£100k), Climate Action Plan works (£55k); Carbon Woodland including planning (£30k); Re-Use initiatives (£500k) and Food Waste preparations (£1,000k). There are also provisions for apparatus upgrades for the Closed Landfill monitoring (£60k), and a further provision for ICT equipment (£100k) reflecting the ongoing costs of moving to a new supplier.

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 2024-25

10.1 The Authority is asked to set a revenue budget of £81,851,013.

11. Levy 2024-25

11.1 The Levy for 2024-25 proposal is as follows:

- An overall 3.75% increase – setting the Levy at £81,851,013.

11.2 Members are recommended to accept the 3.75% 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 2024-25

1. Introduction

1.1 The Authority is required by statute to set its Levy for 2024-25 by 15th February 2024. 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 2024-25 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 at 3.75% there is little more that can be achieved in the short term 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 2024-25 is considered against a table of components with the Authority's position identified against them.

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

	monthly monitoring is undertaken by Section Managers and the Business Support Manager.

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

2. Revised Budget 2023-24

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 Senior Leadership 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 2023-24 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £76,547,417 (which is a decrease of £2,345,110 from the Original Revenue Budget for 2023-24 (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 – increase in GF from reduced contribution requirements	+2,345

2.3 The total movement is £2.345M reduction in contribution from balances as there was initially planned to be a higher contribution from balances in the current year.

2.4 The year-end balance on the General Fund is forecast to be at £7.608M at 31 March 2024. These are the total resources available to the Authority at the end of 2023-24, with an affordable proportion of this balance is proposed to be utilised in cushioning the budget in 2024-35. 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 2023-24 are as follows:

	£000
Establishment – Employee costs increase (£130k), transport cost reduction (£9k), supplies and services increase (£35k) Agency reduction (£8k), reallocation of service development and year end support (-£130k)	+15
Contracts – the contacts offset each other – additional one off and higher than expected income means the WMRC is likely to underspend (£3,075k) whilst waste arising and tonnages mean the RRC costs increased (£653k).	-2,422
Closed landfill – key changes here include savings on electricity (£10k) and Trade Effluent (£13k), together with other smaller changes.	-35
Rents, & Rates – increased cost here arises from changes to the ratable values and the NNDR payable on MRWA owned properties	+88
Recycling credit payments – payments estimated: Liverpool reduction (-£305k); Wirral reduction (-£32k); Sefton increase (£18k); Knowsley increase (£156k); St Helens increase (£58k)	-105
Strategy & resources,– no change.	-
Data processing, the key change here reflects the additional costs associated with the move to a new ICT supplier.	+219

Behavioural Change,– the circular economy planned spend is reduced (-£15k) and the Waste Prevention Programme is reduced (-£3k) with the cost of living budget re-allocated to support other programmed spend (-£100k).	-118
Permits – the revised on-line permit scheme admin costs have been recognised here.	+13
Interest – charges from the provider	0
Capital accounting – minor adjustment	0
General Fund – reduction in planned contribution to support required	2,345
TOTAL	0

3. Proposed Budget 2024-25

3.1 The proposed budget for 2024-25 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £84,408,813 before a proposed General Fund contribution of £2,557,800. This includes the anticipated levy increase of 3.75%%.

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

	£000
Establishment – the changes reflect an anticipated increase in staffing costs (£255k), increases in premises costs (£4k), reduction in transport costs (-£8k), an increase in the cost of supplies and services (£27k) a reduction in Agency costs (-£9k) a reallocation of costs between	+126

financial year end support and service development – net change (-£130k)	
Contracts – the cost changes reflect the increased costs of the WMRC (+£611k), and an increase in the costs of the RRC (+£688k) – these are costs net of any income due to each contract.	+1,299
Closed landfill sites – an increase in the likely monitoring and maintenance costs of (+£93k) is accompanied by an increase in the costs of environmental compliance (+£30k) offset by small cost increases elsewhere.	+119
Rents & rates – a small increase in rents (+£2k) accompanied by a large increase in rates – caused by national ratable valuation re-assessments (+£275k) and the additional cost of the triennial asset valuation estimate (+£45k).	+322
Recycling credits –changes for most Districts compared with the prior year for most District Councils (Liverpool -£282k; Wirral -£6k; Sefton +£57k; Knowsley +£172k; St Helens +£98k)	+37
Strategy and resources – no anticipated change	-
Data processing additional costs arising from the move to an new ICT supplier	+220
Behavioural change, reduction in the communications budget (-£8k), increase in the education programme (+£25k), increase in the re-use budget (+£30k), offset by a reduction in the waste	-100

prevention programme (-£47k) and a re-allocation of the Cost of Living fund.	
Permit scheme – admin costs associated with the on-line permit scheme	+13
Interest payments (as set out by external provider)	-
Capital accounting – adjustment in respect of Minimum Revenue Provision and depreciation	-
Total net change in General Fund contribution	+922
Levy change – estimated at -0.12% decrease overall	+2,958

3.3 The proposed Revenue Budget for 2024-25 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 Fund Reserve at 31-3-2024	7.608

Proposed application of General Fund during 2024-24 to support the Levy	-2.558
General Fund Reserve at 31-3-2024	5.050

3.5 The level of General Fund Reserve has been reviewed as part of the medium-term financial strategy. Taking into account the current headline levels of contribution towards a proposed 3.75% decrease in the Levy for 2024-25 and looking ahead into the following two years it is expected that by the end of 2024-25 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 In particular the requirement for the Authority to fund the procurement of a new contract will be a call upon the funds available. Therefore is it proposed that of the £5M General Fund identified above, an amount of £1M is classed as being set aside to fund the ongoing procurement costs that will be incurred during 2024-25. Future decisions about where the funding will be met in future years will be brought forward for Members to consider during the next 12 months.

3.7 While the planned balances for 2024-25 remain at adequate levels under the proposals considered earlier in this report, it will be important to maintain those balances into the future otherwise the Authority's financial position could become more precarious.

3.8 If the proposals for the Levy for 2024-25 are approved the Authority will be left with over £4M of unallocated balances at the end of 2024-25; 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.

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	Uncertainty over the price of recyclate has an impact on the amount of income that can be identified to offset contract costs	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 under the contracts.	high

4. <u>Capital programme</u>

4.1 The Authority has been considering options for improving services, in particular the provision of support for food waste collection, 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 almost £2.16M 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. <u>The Levy</u>

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:

12 April 2024	11 October 2024
17 May 2024	15 November 2024
28 June 2024	3 January 2025
2 August 2024	7 February 2025
6 September 2024	7 March 2025

5.3 The Levy proposal is shown in the table below.

Under the existing Mechanism with a 3.75% 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.

2024/25 LEVY PER DISTRICT COMPARED TO 2022/23 LEVY				
Tonnages Full Year 2022/23				
	2023/24 Levy	**Proposed Levy 2024/25**	**Increase/ Decrease (-)**	**% Increase/ Decrease**
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%
	78,892,526	**81,851,013**	2,958,487	3.75%

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 2024-25 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

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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 2024-25 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 2024-25 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.