

MRWA OUTTURN REPORT 2024-25
WDA/20/25

Recommendation

That Members:

1. Note the final outturn position with regard to the Authority's Revenue and Capital Expenditure for 2024-25;
2. Note the position in respect of the Authority's reserves and approve the creation of an Earmarked Reserve to support the forthcoming procurement;
3. Approve the transfer of £8m to earmarked reserves and approve the Authority's proposed policy in respect of reserves as included at Appendix 3; and
4. Note the final outturn with regard to Treasury Management as included at Appendix 4.

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MWDA OUTTURN REPORT 2024-25
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Report of the Director of Finance

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 2024-25. The report outlines the position of the Authority's reserves, including the proposed transfers from general to earmarked reserves, and seeks approval of the proposed Policy in respect of their utilisation. 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 in respect of revenue expenditure, capital expenditure and the levels of authority reserves.
- 2.2 The Authority is in the process of preparing the full financial accounts, which will be published in time for the statutory deadline of 30th June. This may lead to some minor revisions to the final financial results but this is not expected to significantly affect the outturn position outlined in this report. Members should also note that the financial results outlined in this report are subject to external audit, and this will not be completed until early 2026.
- 2.3 The Authority is also required to consider the final outturn position on the Prudential Indicators as a part of the statutory Prudential Code for Capital Finance. The Treasury Management Outturn position is shown in the report included at Appendix 4 and includes a comparison of the Outturn Prudential Indicators against the Revised Estimates approved by the Authority on 2nd February 2024.

Key areas of the report

3. Revenue expenditure

- 3.1 A comparison of the Authority's financial performance in 2024-25 against the Original Approved budget together with the Revised Estimate (approved at the Authority Budget meeting on 2nd February 2024) is shown at Table 1 below. For consistency, this excludes certain Final Accounts adjustments, which are explained in Section 4 of this report
- 3.2 The results show a deficit position of £5.041m, an increase of £0.896m compared to the revised forecast £4.145m. The initial outturn position compared against the budget in format previously shown to Members is outlined in Table 1 below.

Table 1: Comparison to budget

	Budget 2024 -25	Revised Budget 2024 -25	Outturn	Variance against Revised Budget
	£'000	£'000	£'000	£'000
1. MWDA ESTABLISHMENT	2,706	2,764	2,428	(337)
2. WASTE DISPOSAL CONTRACTS	29,830	31,093	30,262	(831)
2. RESOURCE RECYCLING CONTRACT	42,855	43,459	44,144	685
3. CLOSED LANDFILL SITES & RRC ENVIRONMENTAL COMPLIANCE	528	469	421	(48)
4. RENTS & RATES	995	990	923	(66)
5. RECYCLING CREDITS	4,887	4,605	4,533	(72)
6. STRATEGY AND RESOURCES	27	27	10	(17)
7. DATA PROCESSING	335	335	198	(136)
8. BEHAVIOURAL CHANGE PROGRAMME	729	737	662	(75)
9. PERMIT SCHEME	13	13	0	(13)
NET COST OF SERVICES	82,904	84,491	83,580	(911)
10. INCREASED PROVISION FOR FUTURE LIABILITIES	0	0	2,549	2,549
11. DIVIDENDS	0	0	(5,000)	(5,000)
12. NET INTEREST	1,400	1,400	830	(570)
NET OPERATING EXPENDITURE	1,400	1,400	(1,688)	(3,088)
13. CAPITAL/TECHNICAL ACCOUNTING	105	105	0	(105)
14. TRANSFER TO/ -FROM GENERAL RESERVE	0	0	0	0
15. CONTRIBUTION FROM GF TO EARMARKED RESERVES	0	0	5,000	5,000
TOTAL COST OF SERVICE	84,409	85,996	86,892	896
15. LEVY INCOME	(81,851)	(81,851)	(81,851)	0
NET (SURPLUS) CONTRIBUTION IN YEAR	2,558	4,145	5,041	896

Establishment

- 3.3 This underspend is the combination of an unutilised budget for the financial year end support amounting to (£165k): (£148k) in staffing costs, (£164k) in premises costs, (£46k) in Transport costs, (£37k) in agency costs and an overspend of £209k on the supplies and services budget.
- 3.4 In terms of any recurrent effects, £138k of the underspend of £164k for premises relates to changes resulting from the implementation International Reporting Standard (IFRS) 16, which all local authorities must apply from 2024-25 onwards. This has changed the way that the lease for premises at Mann Island is accounted for. Rather than £138k being charged to revenue the charge is now split between a new lease liability on the balance sheet and the associated interest costs for the year.
- 3.5 The overspend in supplies and services is reflective of the increases in the 23/24 audit fees which were under accrued for and 24/25 audit fees. With the recurrent element of this being an increased cost for audit fees going forward.

Contract payments

- 3.6 For the WMRC contract the position was much closer to the original budget set out at the beginning of the year rather than the updated budget as per committee documents from February.
- 3.7 Within the WMRC contract expenditure, there was an increase in income from trade waste, bolstering the underspend by £83k.
- 3.8 The underspend for the WMRC contract was offset by an overspend with the RRC contract. RRC, gross contract costs were lower than expected - primarily due to a larger than expected amount due back to the authority in relation to annual reconciliation adjustments for prior periods. However, this reduction was more than offset by an increased reconciliation adjustment due back to Halton.
- 3.9 Finally, procurement costs are included within the contracts budgets but will be separated out for the new financial year. Within procurement there was an underspend of (£50k).

Closed landfill site management

- 3.10 The underspend relates to the unutilised budget for environmental compliance (37k), an underspend of (14k) on the equipment budget and an underspend of (5k) EMS Accreditation. Offsetting this slightly, there was a small overspend on premises costs of £2k.

Rent and rates

- 3.11 As with the reduction in premises costs in respect of Establishment costs, the rent charge also falls under IFRS-16 so must be treated in the same way. This combined with an over accrual in the prior year meant an overall underspend of (59k). The remaining difference is due to an unutilised budget of (3k) for fire suppression at Bidston, a £1k rates overspend and a decrease in the expected costs of the revaluations of our assets meaning an underspend of (8k).
- 3.12 In terms of recurrent affects in this underspend, £56k relates to the changes per IFRS-16 and from this financial year will be split between interest costs and repayment of the liability.

Recycling credits

- 3.13 The reduced cost reflects fluctuations in the tonnages recycled by the constituent Districts compared with estimates and for which credits may be claimed.
- 3.14 There has been a slight over performance on budgets for Knowsley and Sefton (overspends circa 3k and 32k respectively). With an overperformance from Wirral with a overspend of £272k. These increases were offset by reduced payments to Liverpool and St Helens.

Strategy & Resources

- 3.15 The strategy update gave a saving (£15k), and the policy and research budget was unspent (£2k).

Data processing

- 3.16 The (£140k) underspend primarily relates to the capitalisation of expenditure relating to the update of our IT systems.

Behavioural Change

- 3.17 This financial year there is an improved utilisation of this budget. Shown by a decrease in the underspend from £235k in 23/24 to £75k in 24/25.

Permit scheme

- 3.18 The savings arose because the Permit scheme is essentially an on-line system these days with only legacy provision remaining for people who cannot access the scheme on-line.

Increased Provision for Future Liabilities

- 3.19 This represents an increased provision with regards to costs that may arise resulting from contractors' claims.

Dividends

- 3.20 The authority received a £5m dividend from Mersey Waste Holdings Limited (MWHL) this financial year, which was used to create an earmarked reserve for the procurement of future waste services.

Interest costs

- 3.21 Interest payable this year was comparable to previous years, coming in slightly under budget (around 28k under), despite the increase in interest charges in relation to the implementation of IFRS-16. The position was significantly improved with interest received from investments relating to the utilisation of our cash balances. These investments gave rise to interest receivable circa £542k.

Levy Income

- 3.22 The Levy change for 2024-25 was limited to a 3.75% increase in overall terms, which was only possible by planning to use this part of the Authority's General Fund during the year.

4. Final Accounts Adjustments

- 4.1 As previously reported, the Authority has several years of accounts for which no audit opinion has been or will be provided. In order to address this, the Director of Finance commissioned Arlingclose to review the accounting treatment of its two Public Private Partnership (PPP) schemes, going right back to when the schemes commenced.
- 4.2 This review, together with the implementation of IFRS-16 has resulted in the following:
- A significant reduction in the liability recoded in the Authority's balance sheet in respect of its PPP projects
 - Recognition that a significant proportion of both contracts is financed through 3rd Party Income, rather than directly by the Authority

- Reallocation of contract payments to recognise the repayment of liabilities and interest costs.
- An increase in the Authority's usable Reserves.

4.3 It should be noted that his revised treatment is yet to be verified by the External audit, which is not expected to be completed until early 2026.

4.4 The changes also impact upon the financial results for 2024-25 and the revised position compared to Table 1 is shown at Table 2 below. It shows a reduction in the overall annual deficit from £5.041m to £3.247m. Explanations are provided in the paragraphs following Table 2 with a breakdown of each service provided at Appendix 1.

Table 2: Final Outturn Position

	Revised Budget 2024 -25	Outturn	Outrun - Final Accounts	Final Accounts Variance
	£'000	£'000	£'000	£'000
1. MWDA ESTABLISHMENT	2,764	2,428	2,419	(9)
2. WASTE DISPOSAL CONTRACTS	31,093	30,262	28,669	(1,593)
2. RESOURCE RECYCLING CONTRACT	43,459	44,144	23,291	(20,853)
3. CLOSED LANDFILL SITES & RRC ENVIRONMENTAL COMPLIANCE	469	421	423	2
4. RENTS & RATES	990	923	923	0
5. RECYCLING CREDITS	4,605	4,533	4,533	0
6. STRATEGY AND RESOURCES	27	10	10	0
7. DATA PROCESSING	335	198	198	0
8. BEHAVIOURAL CHANGE PROGRAMME	737	662	662	0
9. PERMIT SCHEME	13	0	0	0
NET COST OF SERVICES	84,491	83,580	61,127	(22,453)
10. INCREASED PROVISION FOR FUTURE LIABILITIES	0	2,549	2,549	0
11. DIVIDENDS	0	(5,000)	(5,000)	0
12. NET INTEREST	1,400	830	16,602	15,772
NET OPERATING EXPENDITURE	1,400	(1,688)	14,084	15,772
13. CAPITAL/TECHNICAL ACCOUNTING	105	0	4,888	4,888
14. TRANSFER TO/ -FROM GENERAL RESERVE	0	0	0	0
15. CONTRIBUTION FROM GF TO EARMARKED RESERVES	0	5,000	5,000	0
TOTAL COST OF SERVICE	85,996	86,892	85,098	(1,794)
15. LEVY INCOME	(81,851)	(81,851)	(81,851)	0
NET (SURPLUS) CONTRIBUTION IN YEAR	4,145	5,041	3,247	(1,794)

Contract payments

- 4.5 Contract payments are revised to exclude interest payments and principal payments for the liabilities relating to the PPP Assets.

Interest payments

- 4.6 Reallocation of interest payments to service debt incurred by the contractors.

Technical accounting

- 4.7 This primarily relates charges the Authority is required to make to fund the repayment of Authority debt, including its PPP liabilities – Minimum Revenue Provision (MRP). It offsets the reduction in PPP contract payments in respect of principal payments for the liabilities relating to the PPP Assets identified in 4.5 above.
- 4.8 The proposed change in accounting policy in respect of MRP (as commended by the Audit & Governance Committee at its meeting of 29 May and to be considered the Authority at the meeting of 27th June), means that this charge is currently recorded as being lower from that which would have been applied in previously.
- 4.9 The net effect of all the above is to reduce the Authority's deficit for 2024-25 by £1.794m.

5. Authority Reserves

- 5.1 The Authority's Earmarked and General Balances, together with the movements in and out during 2024-25, are summarised in the table below:

Table 3: Summary of Reserves

	Revised Budget 2024 -25	Outturn	Outrun - Final Accounts
	£'000	£'000	£'000
Reserves b/f	8,743	8,743	8,743
Adjustment for Prior Years			17,772
Transfer from MWHL			5,000
Deficit for the Year	(4,145)	(5,041)	(3,247)
Contribution to Procurement Reserve			(5,000)
Contribution to future Cost in respect of Emissions Trading and Extended Producer Responsibility			(5,000)
Reserves c/f	4,598	3,702	18,268

- 5.2 Reserves brought forward have increased by £17.772m due to the changes in accounting treatment of the Authority's PPP schemes and as outlined in Section 4 above.
- 5.3 It is proposed to create two specific earmarked reserves to enable the Authority to manage significant risks expenditure
- **Procurement Reserve (£5m)** – to fund the engagement of legal financial and technical advisers in the forthcoming procurement for the new Waste Management contract; and
 - **Legislation Impact Reserve (£5m)** – to enable the Authority to manage the impact of forthcoming legislation changes in respect of Extended Producer Responsibility, Deposit Return Scheme and Emissions Trading Scheme (ETS), amongst others. At this stage the costs are unknown but by building up a reserve to meet this expenditure, the Authority will be better able to manage and mitigate the initial impact on the Districts' levy payments. The intention is to increase this Reserve further over the coming years in time for when the expansion of ETS to include energy-from-waste comes into effect in 2028.
- 5.4 It is proposed that the utilisation of these reserves will be subject to the reserves policy outlined at Appendix 3, for which Member approval is sought.
- 5.5 Subject to the approval of this report, the total General Fund reserve available to the Authority would be £18.268m. Given the uncertainties and challenges facing the authority, this is considered to be an appropriate level of balances for the Authority at this point. These challenges and uncertainties include:
- the additional costs arising from the Government's Simpler Recycling changes,
 - the additional costs that will arise from the re-procurement of the Waste Management PPP Contract;
 - potential for income losses as the impacts of the Government's deposit return scheme are realised;
 - the financial risks of the Emissions Trading Scheme will be likely to be significant and difficult to predict, and
 - as ever with the work of the Authority, there will be contractual challenges and changes that each of the contractors will seek to negotiate additional payments from the Authority.

6. Capital expenditure

- 6.1 Capital expenditure was initially forecast at £2.158, of which £1.000m was in respect of new Food Waste Collection facilities. This forecast was revised down to £0.383m by the Authority at its budget meeting of 2nd February. In the event, total capital expenditure was £0.209m comprising:
- £0.113m in respect of Food Waste
 - £0.096m in respect of ICT.
- 6.2 The expenditure in respect of food waste will be incurred in 2025-26, in time for the facilities to be operational by the statutory deadline of 1st April 2026.
- 6.3 The IT expenditure includes laptops, screens and comms equipment (£96k) alongside the Authority's transition to a new ICT provider during 2024-25.
- 6.4 Further details are included at Appendix 2. The impact of the slippage on 2025/26 will be assessed and an update provided at the next Authority meeting.

7. Treasury Management

- 7.1 The Authority set its Prudential Indicators in the budget meeting for 2024-25. Appendix 4 shows the actual outturn against the revised Indicators. Members are asked to note that the Authority remained well within the boundaries of the Prudential Indicators and the borrowing framework authorised through their approval.
- 7.2 The report outlines a significant reduction in both the level of the Authority's gross debt and also to its Capital Financing Requirement (CFR). This has resulted from a change in the way the Authority accounts for the debt incurred by the private sector in respect of its two PPP projects.
- 7.3 Although the assets procured under both schemes were built and financed by the private sector, the Authority is required to record both asset and corresponding debt liability on its own balance sheet. The review undertaken but Arlingclose together with implementation of IFRS 16 has resulted in a significant reduction in the method by which this liability is calculated. Details are provided within Appendix 4.

8. Risk Implications

- 8.1 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.
- 8.2 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	Establishment of a specific reserve to meet these costs. Rigorous management and oversight of the procurement process.
Legislative changes and Simpler Recycling	4	4	16	Establishment of a specific reserve to meet these costs. The Authority needs to work with Districts to minimise waste arisings and costs

9. HR Implications

- 9.1 There are no HR implications

10. Environmental Implications

- 10.1 There are no environmental implications

11. Financial Implications

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

12. Legal Implications

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

13. Conclusion

- 13.1 The report identifies the financial performance of the Authority in the financial year 2024-25; 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.

14. Appendices

- 14.1 The appendices to this report are:

Appendix 1: Revenue Outturn tables

Appendix 2: Capital expenditure

Appendix 3: Proposed Policy in respect of Reserves

Appendix 4: Treasury Management Outturn Report

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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.