MRWA BUDGET 2026/27 AND MEDIUM-TERM FINANCIAL STRATEGY 2027/28 TO 2030/31
WDA/04/25

Recommendation

That the Authority approves:

1. the revised budget for 2025/26;
2. the revenue budget for 2026/27 as set out in section 5;
3. the Levy proposal set out in Section 6 and Appendix 2 to this report and agrees the 2026/27 Levy at £85,579,220
4. the Levy to be made on the constituent district councils for 2026/27 together with the payment dates for the Levy as set out in Section 8 to this report;
5. the increase in earmarked reserves from £10.0m to £20.0m to help the Authority meet the impact of forthcoming legislative changes;
6. the forecast level of General Fund balances at the end of 2026/27 of £24.2m as set out in Section 7 of this report; and
7. the proposed charges for 2026/27 included at Section 11.

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MRWA BUDGET 2026-27 AND MEDIUM-TERM FINANCIAL STRATEGY 2027/28 TO 2030/31
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Report of the Director of Finance

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 its Medium Term Financial Strategy (MTFS).

2. Background

General

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 Borough Council. The Authority delivers this principally through contracts with private sector contractors who provide waste management and disposal facilities.

2.2 During the current year, the Authority has continued to work closely with district Council partners in the Liverpool City Region Waste and Resources Partnership to identify ways to ensure the entire waste system is as effective as it can be. This joint working arrangement is and will continue to be ever more important as the Authority and its partners are now facing the most complex set of challenges in recent times as multiple changes to the way that waste is collected and managed are becoming 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 The Authority's Waste Management and Recycling contract (WMRC) reaches the end of its initial term in May 2029 and the Authority has established its Future Waste Services (FWS) procurement programme to determine the way these services will be delivered over the longer term once the WMRC contract expires. This programme involves 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.

Contract arrangements

2.4 The Resource Recovery Contract (RRC) enables the Authority to dispose of most of Merseyside's residual waste through an Energy from Waste (EfW) plant. A small amount is still disposed of in landfill 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.

2.5 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 the EfW plant at Wilton in Redcar, where it is used to create steam and power.

2.6 Over the years the EfW plant has had a number of technical challenges and in consequence MERL and its contractor Suez undertook remedial works. There have been no recent issues in this respect and the reduced levels of downtime for the plant means that less of the Authority's resource is taken up helping to manage the waste streams that need to be transferred elsewhere.

2.7 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 reduce future Emissions Trading Scheme (ETS) costs the Merseyside and Halton Councils' residual waste tonnages will need to start to reduce , quite significantly. The implications of potential ETS costs are addressed within the MTFS contained in this report.

2.8 There are currently a number of ongoing disputes with the RRC contractor, MERL, over how the contract should operate and the Payment Mechanism in particular. These pose a significant financial risk to the Authority and are outlined further within this report.

2.9 The other key contract is the Waste Management and Recycling Contract (WMRC) operated by Veolia ES Merseyside and Halton (Veolia) and which expires in 2029. The WMRC includes the provision of transfer stations, waste transport, household waste recycling centres (HWRCs), materials recovery facilities (MRFs) together with food handling and green composting. The contractor and the Authority face a challenging period in 2026/27 with introduction of mandatory food waste collection and Simpler Recycling coming into effect on 1st April 2026. New facilities are currently being constructed to facilitate this at a cost to the Authority of some £4m, as outlined in the Capital Strategy and Capital Programme report to be presented at this Authority meeting.

2.10 The WMRC provides 16 HWRCs across Merseyside and Halton and this remains a very well-used service which is popular with the public. The continued use of an on-line system for managing the number of visits by commercial-type vehicles (such as vans) helps manage the waste received at the sites. The HWRC network is successful and the contractual recycling rates are exceeded across the estate.

2.11 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 on waste minimisation and education initiatives, as well as managing historic closed landfill site liabilities. Such 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.

Challenges

2.12 Local government generally, and Merseyside in particular, faces ever more difficult challenges in the levels of funding available. Across England a number of councils are facing the prospect of effectively declaring that they have either run out of money or require short-term Exceptional Financial Support. The tough financial environment in which Merseyside local authorities operates means that very difficult decisions continue to be made about the shape and size of local government services in the future.

2.13 In this context, the Authority has been working alongside Merseyside councils' 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 Authority's Chief Executive, establishing a good working relationship that has enabled each party to understand the budget pressures that all authorities face in the next budget round.

2.14 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 demands of the Extended Producer Responsibility (EPR regime) and Simpler Recycling;
- the proposed Deposit Returns scheme due for implementation in 2027; and
- ETS being applied to waste due to come into effect in 2028.

Extended Producer Responsibility (pEPR) Scheme.

2.15 In November 2024, the Government announced further details in respect of the scheme whereby the producers of packaging are charged by Govt. for the costs of dealing with the packaging in household waste – the Extended Producer Responsibility (pEPR). The monies to be collected through pEPR – anticipated to be £1.1bn in 2025-26 (and beyond) - are due to be distributed across Collection and Disposal Authorities nationally. The provisional allocation for MRWA for 2025/26 was £12.968m but this was reduced to £11.524m when the final allocations were announced this year[1]. The allocation for 2026/27 is confirmed at £11.605m.

2.16 This new funding stream, which will continue into future years, albeit likely on a declining scale, will impact the way the Authority addresses the financial and performance challenges it faces going forwards.

Financial Considerations

2.17 The financial climate for the districts 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. It is also important that the Levy increase does not fluctuate significantly from year to year. Rather, the aim is for a consistent increase over time that enables districts to incorporate the estimated costs of the Levy into their Medium Term Financial Strategies, bearing in mind that Council Tax increases for general purposes remain limited to 3%.

2.18 As a part of the budget exercise for 2026/27 the Authority projected the amounts of monies it may expect to need for 2027/28 and beyond. Officers consulted the Members of the Authority in October 2025 concerning options in respect of increasing the 2026/27 Levy. The Authority has also held discussions with Chief Executives and Directors of Finance of the districts. At these meetings there appeared to be broad acceptance of the need for a sustainable overall increase in the Levy in the region of 2.5%.

3. <u>Climate change and zero waste</u>

3.1 Across all sectors of the economy there continues to be a significant emphasis placed on the impact of human activity on the planet. The Authority joined with others in declaring a Climate Emergency and that has been incorporated into its Corporate Plan for a number of years. As part of that plan the Authority has contributed to the development of a Zero Waste Strategy for the Liverpool City Region and at the same time has developed a Zero Waste Strategy for the Authority. Together these form the basis on which corporate plans around service and future objectives for the Authority are and will continue to be planned. They will provide the means of assessing and measuring success for the Authority into the medium and longer term, enabling Members to better understand the Authority's contribution to the overall Zero Waste agenda and how important a contribution it can make to climate change.

3.2 In considering Zero Waste and 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

[1] MHCLG will to fund the difference in 2025/26 but the reduction will impact the Authority in future years.

considerably lower climate impact in the EfW plant; or whether the significant extent of recycling carried out both at the Materials Recovery 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. These impacts and measures will continue to be developed both through the Authority's own activities and through its planned responses in the short and medium term to the Government's Simpler Recycling agenda, as well as being a key driver for the future Waste Services procurement Programme .

3.3 In broad terms Simpler Recycling will mean that Councils separate more materials for recycling and the Authority will be able to ensure that more materials are processed by recycling rather than going to residual waste. Included in this agenda is the separate treatment of Food Waste, which will be collected by district councils from all households during 2026. The success of these initiatives should ultimately see the Authority reduce the amounts of waste going into the EfW and will impact on the amount of carbon generated by the Authority's activities.

3.4 Together with the existing Behavioral 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, all of the Authority's activity prioritises actions on climate change and zero waste.

3.5 However, there is always 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 expanding re-use ;
- 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 water and energy savings opportunities at closed landfill sites; and

3.6 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;

- Behavioural change activity;
- Expanding the opportunities offered through the Zero Waste Community Fund; and
- Further investment in moving towards a Circular Economy.

3.7 The Future Waste Services Programme provides an exciting opportunity for the Authority and it's partners to define and develop future services that manage resources and waste in the most sustainable way possible. Critical success factors (CSFs) defined for the programme include consistency with the MRWA zero waste strategy alongside multiple other CSFs relating to social, economic and environmental value include carbon impact.

3.8 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.

4. Revised Budget for 2025/26 and Year End Forecast

4.1 The revised estimates for 2025/26 derive 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.

4.2 Service managers work with the Finance Manager to review and monitor their budgets on a regular 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 through receipt of a monthly financial report which includes a forecast financial outturn for the year. The position at the end of the third quarter of the year is used to predict the outturn for 2025/26 as contained in this report.

4.3 The Revised Revenue Budget for 2025/26 is shown in Table 1 below; column 3 details that the forecast Net Total Cost of Service has reduced from £83.492m to £81.014m. This results in a forecast overall surplus for the year of £2.478m.

Table 1: 2025/26 Revised Financial Forecast

	Original Budget	Estimate Full Year	Variance	Spend at Period 9	Forecast at Period 9
	£'000	£'000	£'000	£'000	£'000
1. MWDA ESTABLISHMENT	3,277	2,722	(555)	1,977	2,628
2. WASTE MANAGEMENT & RECYCLING CONTRACTS	30,900	30,874	(26)	18,567	30,874
3. RESOURCE RECOVERY CONTRACT	42,854	43,022	168	34,936	43,022
4. CONTRACT SUPPORT	450	450	0	199	450
5. PROCUREMENT	1,500	1,058	(442)	561	1,050
6. ESTATES	1,506	1,372	(135)	1,053	1,371
7. RECYCLING CREDITS	4,697	4,468	(229)	2,197	4,468
8. DATA PROCESSING	283	267	(17)	188	266
9. BEHAVIOURAL CHANGE PROGRAMME	756	750	(6)	263	739
10. TRANSFER TO EARMARKED RESERVES	8,730	10,000	1,270	0	10,000
NET COST OF SERVICES	94,955	94,983	28	59,942	94,868
11. NET INTEREST	105	5,100	4,995	627	817
12. OTHER INCOME	(12,968)	(12,989)	(21)	(5,693)	(12,989)
NET OPERATING EXPENDITURE	82,092	87,094	5,002	54,876	82,696
13. TECHNICAL ACCOUNTING	1,400	817	(583)	(247)	5,100
14. PPP LIABILITIES REPAYMENTS	0	(6,897)	(6,897)	0	(6,897)
TOTAL COST OF SERVICE	83,492	81,014	(2,478)	54,628	80,899
15. LEVY INCOME	(83,492)	(83,492)	0	(58,238)	(83,492)
NET (SURPLUS) CONTRIBUTION IN YEAR	(0)	(2,478)	(2,478)	(3,610)	(2,593)

4.4 The reasons for the major variances are as follows:

Establishment Costs

4.5 Staffing forms the largest element of costs for this area and the original budget was based on a full complement of staff and is inclusive of an additional £300k that members approved in February 2005 to provide an additional four posts to enable the Authority to manage waste more efficiently. Recruitment in respect of these additional resources will not be completed until the latter part of the financial year. In addition, the Authority carried 3 vacancies into this year, which were only recently filled.

4.6 The original budget also included costs relating to the rent of premises. However, under new accounting standards (IFRS 16) this expense is treated differently, and the charge is split between our interest cost and liability on the balance sheet. This results in forecast reduced costs of approximately £113k.

WMRC and RRC Contracts

4.7 The revised forecast is based on the current estimate of costs based on expected tonnages and KPI's provided by the Authority's contracts team.

4.8 The Authority has a contract with MERL to deliver residual waste to the EfW in

Wilton, and payments to MERL are calculated in accordance with the detail set out in the Payment Mechanism. The Payment Mechanism contains provisions that reconcile payments at various points during the year, notably at the end of each quarter and then at the end of the Contract Year. If tonnages exceed certain thresholds, rebates are payable to the Authority.

4.9 However, MERL has disputed the scale of the rebate due to the Authority in respect of 2024/25 and it is expected that a similar dispute will occur in respect of 2025/26. The Authority's initial legal advice suggested that its assumptions in respect of the rebate should be calculated were correct. This has recently been supported by further advice from a leading KC. Should agreement not be reached then Authority will have no alternative but to refer the matter to adjudication.

4.10 In view of the robust legal advice received, the Authority's forecast continues to assume the rebate will be due in accordance with the Authority's calculations. However, if the Authority is incorrect then it will face additional expenditure of some £2.5m

4.11 There is also an ongoing dispute in respect of insurance costs, which MERL referred to dispute resolution (adjudication) in January. For some time, MERL has been seeking a settlement from the Authority in respect of costs it claims have arisen from several bi-annual Joint Insurance reviews. Should these costs crystallise, there will be a significant payment required from the Authority to MERL. The Authority's position on the claim is based on advice from independent contractual and insurance consultants who have confirmed their belief that the contractor's claim is not as strong as the contractor has asserted to date.

4.12 The Authority believes it has made adequate budget provision for potential costs but a worst-case outcome would result in significant additional costs falling due to the Authority, which would need to be funded from reserves. The total of the contractor's claim comes to over £5.7m.

4.13 The Adjudicator's Decision is expected by the end of the financial year and either party may, if dissatisfied with the outcome, refer the matter to the courts for a final judgement.

Procurement (FWS programme)

4.14 Forecast procurement expenditure has reduced significantly from the original estimate. This is primarily due to the extension of Phase 1 of the FWS programme, which was completed in November rather than September and which delayed the predicted increase in expenditure for the next phase.

4.15 In combination with this, the current expected costs for the next phase for the remainder of this financial year are expected to be lower than previously anticipated. However, this represents a delay to expenditure rather than a genuine saving. Plans for the next phase(s) are currently being reviewed and these costs are therefore subject to change.

4.16 Note that the procurement expenditure includes costs incurred in respect of the potential Anaerobic Digestion plant. As outlined to Members on 24 October 25, this project was paused in the Autumn pending government clarification as to the level of any successor to the Green Gas Support Scheme. The Government subsequently confirmed in December that new regulations are expected to come into effect in early 2026 to extend the commissioning deadline of the Green Gas Support Scheme from 31 March 2028 to 31 March 2030. The Authority is therefore reviewing once more the feasibility of building a new anaerobic digestion plant, but it should be noted that 2030 still represents an extremely challenging timeframe. The deadline for stage 1 applications – which would include secured planning permission and a connection agreement with the relevant utility company – remains 31 March 2028 and at this point no site for the new facility is identified.

Net interest

4.17 Net interest has reduced due to the inclusion of interest earned on cash balances invested by St Helens. Further details are contained in the Treasury Management report presented to members at this Authority meeting.

Technical accounting and PPP Liability repayments

4.18 The variances to the original budget are due to the change in accounting policies approved by the Authority on 27 June 2025.

Conclusion

4.19 The budget agreed by members envisaged transferring £8.730m to reserves to support the Authority in its FWS procurement and to meet the challenges of forthcoming legislation. The revised forecast for net expenditure in 2025/26 enables this to be increased to £10.000m

5. Budget 2026/27

5.1 A significant element of the proposed Revenue Budget for 2026/27 is derived from tonnage estimates provided by the district councils. Should the continuing economic conditions persist, and different pattern of waste delivered by districts see increases or significant decreases, then these projections will need to be reviewed.

5.2 Other assumptions include the following:

- Contract inflation – which subject to RPIX – at 3.6%;
- General inflation of 2.5%;
- 2.5% pay award;

- Provisions are made in respect of known disputes;
- Additional costs are included in respect of food processing, Simpler Recycling and the disposal of NOx canisters; and
- That contingency sums are minimal

5.3 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.

5.4 The proposed budget for 2026/27 is shown at Table 2 below, where Column 3 details a forecast Total Net Cost of service of £83.918m. This represents an increase of £2.904m (3.6%).

Table 2: 2026/27 Budget compared with 2025/26 Forecast

Service	2025/26 Forecast £000	2026/27 Indicative Budget £000	% Change	Difference £000
1. MWDA ESTABLISHMENT	2,722	3,462	27.2%	740
2. WASTE MANAGEMENT & RECYCLING CONTRACTS	30,874	34,068	10.3%	3,194
2a. EPR / FOOD / Nox EXPENDITURE	-	4,468		4,468
3. RESOURCE RECOVERY CONTRACT	43,022	44,673	3.8%	1,651
4. CONTRACT SUPPORT	450	453	0.7%	3
5. PROCUREMENT	1,058	1,473	39.2%	415
6. ESTATES	1,372	1,659	20.9%	287
7. RECYCLING CREDITS	4,468	4,640	3.9%	172
8. DATA PROCESSING	267	289	8.1%	22
9. BEHAVIOURAL CHANGE	750	974	29.8%	224
11. CONTRIBUTION TO EARMARKED RESERVES	10,000	0		(10,000)
NET COST OF SERVICES	**94,983**	**96,158**	1.2%	**1,175**
10. NET INTEREST	817	778	-4.7%	(39)
NET OPERATING EXPENDITURE	**95,800**	**96,936**	1.2%	**1,137**
12. TECHNICAL ACCOUNTING	5,100	5,835	14.4%	735
13. PPP LIABILITIES REPAYMENTS	(6,897)	(7,248)	5.1%	(351)
14. OTHER INCOME (EPR)	(12,989)	(11,606)	-10.7%	1,383
15. NET TOTAL COST OF SERVICES	**81,013**	**83,918**	**3.6%**	**2,904**
				-
16. PROPOSED LEVY	**(83,492)**	**(85,579)**	**2.5%**	**(2,087)**
17. FORECAST SURPLUS FOR THE YEAR	**(2,479)**	**(1,662)**	**-33.0%**	**817**

5.5 The reasons for major variances from the previous year are noted below:

- Establishment costs are calculated on the expectation that outstanding recruitment will have been completed by the onset of the next financial year and that no further vacancies will ensue. This is in line with the previous year's original budget.
- The additional costs in respect of dealing with Simpler Recycling (EPR), Food processing and handling NOx canisters are the subject of ongoing negotiations with Veolia. Costs are therefore uncertain at this stage.
- £250,000 is included in respect of NOx canisters that is the subject of a separate report to this Authority meeting. The above forecast assumes that Members approve that report. Should the report not be approved then this would reduce forecast expenditure by £250,000 but this would not alter the conclusions or recommendations contained within this report.
- The net costs for the WMRC contract have arisen primarily due to a forecast fall in the Authority's share of income from selling recyclates to 3rd parties - following the implementation of Simpler Recycling from 1st April 2026.
- Procurement costs are in line with the previous year's original budget
- Estate costs are forecast to increase due to:
  - Increases in non-domestic rates charges
  - a significant increase in electricity costs following the expiry of the Authority's previous deal in 2025;
  - increased trade effluent charges; and
  - condition surveys in advance of the expiry of the WMRC contract.
- Technical accounting costs primarily represent the provision the Authority makes for the repayment of debt. The net impact will increase over time.
- The 2025/26 EPR payment was based on a provisional calculation undertaken in November 2024. As noted in para 2.15 above the final notification resulted in a lower amount for 2025/26 and this has in turn impacted the grant award confirmed for 2026/27.

Risks to the 2026/27 Expenditure forecasts

5.6 Lower rebates in respect of the RRC contract resulting from the annual reconciliation for the reasons outlined in 4.8 to 4.10 above.

5.7 Increased insurance costs for the reasons outlined in 4.11 to 4.13 above.

5.8 Increased costs of proceeding with a solution to the Government's simpler recycling initiatives, and in particular at the MRFs. The capital costs in respect of improvements required to both MRFs are dealt with in 2025/26 capital programme but there will be ongoing revenue implications in respect of additional staff required to manually remove inappropriate materials. Furthermore the contractor is claiming that its revenue from selling recyclates will reduce significantly due to a reduction in their overall quality. The implications of this are still being worked through.

5.9 Additional costs of some £3m are factored into the 2026/27 WMRC in respect of handling food waste and initially there will be little saving from the RRC contract to offset this. The full cost implications will only be able to be confirmed fully once the scheme is up and running in 2026/27.

5.10 In addition, there is the requirement for the Authority to fund the FWS procurement of a new contract. The proposal to establish an Earmarked Reserve was agreed as part of the previous budget where it was proposed that an Earmarked Reserve be established through releasing funds from the Authority's wholly owned company MWHL in 2024/25. For 2026/27 and the remainder of the MTFS it is not proposed that this reserve be utilised for the FWS procurement costs but that those costs are met from the general revenue budget. However, costs are uncertain at this stage and the Earmarked Reserve may well be required to fund any increased costs of the procurement in later years.

Ongoing Monitoring and Cost Mitigation

5.11 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 and that income from recyclates is maximized.

5.12 As reported above there are challenges arising from the different interpretations between the Authority and its contractors over the way various provisions within the contracts should operate. It is essential that Authority adopts a robust position where appropriate, whilst maintaining an effective operating relationship with its key contractors.

5.13 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 simply transfer the cost elsewhere. For example, reducing services provided at a Household Waste Recycling Centre (HWRC) in one district may transfer demand to another or increase the volume of residual waste collected by District Councils and sent through to the EFW.

5.14 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 most significant 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.

6. Levy Requirement for 2026/27

6.1 At the workshop of 24th October, members were presented with three scenarios for the proposed Levy increase: 1.5% increase, 2.5% increase and 3.5% increase. The implications of each are shown in Table 3 below:

Table 3: Levy Options

	1.50%	***2.50%***	**3.50%**
	£million	£million	£million
Forecast General Reserves b/f from 2025/26	(22.6)	(22.6)	(22.6)
Levy Income	(83.5)	(85.6)	(86.4)
Forecast Expenditure	83.9	83.9	83.9
Forecast General Reserves at 31 March.2027	**(22.2)**	**(24.3)**	**(25.1)**

6.2 The objective is for the Levy to increase at a consistent rate that is affordable to the districts. The compound effect of year-on-year increases means that in order to recover the lost income from a reduced Levy in a previous year, an even higher level of increase would be required. In view of the forthcoming financial pressures facing the Authority outline later in the report, an increase below 1.5% is not considered appropriate.

6.3 As noted previously, the districts subject to the Levy currently face significant financial pressures and the increase in council tax for general needs purposes is likely to continue to be capped at 3%. Given the current level of Authority reserves, any increase above the Council Tax cap would be difficult to justify at this stage.

6.4 In discussions with districts, the Authority has suggested targeting a consistent annual increase of 2.5% over the MTFS period. Whilst this may prove extremely challenging over longer term, officers believe that this is an appropriate objective at this stage, pending further details in respect of ETS yet to be announced by the Government.

6.5 The Levy proposal for 2026/27 is therefore an overall 2.5% increase – setting the

Levy at £85.579m. The implications for reserves are set out in Table 4 in Section 7 below. The proposed arrangement for payment of the Levy is outlined at Section 8 below and at Appendix 2.

7. Reserves & Balances

7.1 The level of General Fund Reserves has been reviewed as part of the medium-term financial strategy. Taking into account a proposed 2.5% increase in the Levy for 2026/27, it is expected that by the end of 2026/27 the General Fund balances will be £24.3m.

7.2 The Authority's Earmarked Reserves and General Balances, together with the projected movements in and out during the 2025-26 and 2026/27 financial years, are summarised in Table 4 below:

Table 4: Forecast Reserves

	Original Forecast		Revised Forecast		
	Earmarked Reserves 2025-26	General Reserves 2025-26	Earmarked Reserves 2025-26	General Reserves 2025-26	General Reserves 2026-27
	£'000	£'000	£'000	£'000	£'000
Reserves b/f per 2024/25 draft accounts as previously reported	**5,000**	**3,471**	**10,000**	**19,621**	**N/A**
Audit Adjustments	**-**	**-**	**-**	**506**	**N/A**
Revised Reserves b/f per final audited accounts	**5,000**	**3,471**	**10,000**	**20,127**	**22,606**
Surplus for the Year		0		12,479	1,662
Contribution to Future Costs in respect of ETS and pEPR			10,000	-10,000	
Reserves c/f	**5,000**	**3,471**	**20,000**	**22,606**	**24,267**

7.3 The Authority currently has £10m of Earmarked Reserves set up from the previous financial year as approved by the Authority on 27th of June 25.

7.4 As noted in Section 4, the Authority proposes to continue to bolster its earmarked reserves set aside for the impact of legislation and FWS. In particular, the Authority faces the following uncertainties, which have been identified for Members previously, over the medium term:

- the continuation by Government of the Extended Producer Responsibility Scheme, albeit at reducing level. In the event that the future payments under the scheme do not reach the levels assumed in this report then there is likely to be a call on the reserves that the Authority has prudently set aside.
- Increased costs from forthcoming legislation, in particular Simpler

Recycling coming into effect on 1st April 2026, the Deposit Return Scheme (DRS) coming into effect in 2027 and the Emissions Trading Scheme (ETS) coming into effect in 2028.

- Future Waste Services (FWS) procurement
- Recyclate income uncertainty
- Ongoing contractual issues

7.5 The forecast levels of balances are considered to be prudent in light of the challenges and uncertainties facing the Authority over the medium term. The implications are set out further in Section 9 below as part of the Authority's Medium Tem Financial Strategy (MTFS). The Authority will need to continue to be able to insure itself against unexpected events and actions, including a growth in waste arisings. Once reserves are 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 future levies. Given the financial pressures the Authority will face in the medium term, it does not appear to be prudent to utilise reserves to support the 2026/27 and such an option and has little to recommend it.

8. Payment of the Levy

8.1 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.

8.2 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.

8.3 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:

10 April 2026	09 October 2026
15 May 2026	13 November 2026
26 June 2026	08 January 2027
07 August 2026	05 February 2027

04 September 2026	05 March 2027

8.4 A comparison of the proposed Levy to the previous year is set out in Table 5 below:

Table 5: Levy change – year on year
(Tonnages – based on full year 2024-25)

2026/27 LEVY PER DISTRICT COMPARED TO 2025/26 LEVY				
	2025/26 Levy	**Proposed Levy 2026/27**	**Increase**	**2026/27 % Increase**
	£	**£**	**£**	
Knowsley	9,254,927	9,443,737	188,810	2.04%
Liverpool	28,657,778	29,770,934	1,113,156	3.88%
St Helens	10,228,395	10,384,414	156,019	1.53%
Sefton	16,485,590	16,699,429	213,839	1.30%
Wirral	18,865,235	19,280,706	415,471	2.20%
	83,491,925	**85,579,220**	**2,087,295**	**2.50%**

9. Medium Term Financial Strategy

9.1 The Authority's proposed budget for 206/27 is presented at a time when the Authority faces significant financial challenges. These are summarised in Table 6 below:

Table 6: MTFS Challenges

Challenge	Potential impact	Risk category	Assumption made in MTFS
Tonnage volumes	Additional costs arising from either the RRC or the WMRC, may have a significant impact on the financial resilience of the Authority.	Medium	Ongoing 5% reduction in tonnage from 2028/29 onwards
Simpler recycling	The costs of being prepared for simpler recycling are high and may be further exacerbated by a reduction in recyclate revenues. Negotiations with the Contractor are yet to be concluded	High	Costs based on current discussions with Contractor.

Challenge	Potential impact	Risk category	Assumption made in MTFS
Food Waste	The assumption is that food waste can continue to be treated using the market. However, costs may increase in future years.	Medium	Costs based on Contractor's latest proposal.
Cost increases	Additional costs arising from either the RRC or the WMRC, may have a significant impact on the financial resilience of the Authority. Examples already identified within this report include: • RRC Insurance costs claim of c. £6m with ongoing implications for future years if the Authority is unable to defend the claim • The annual reconciliation for the RRC may lead to increased costs of c. £2.5m.	Medium	Forecasts assume the Authority is only partially correct in its assumptions as to what may be payable / due.
Recyclate income	Uncertainty over the price of recyclates has an impact on the amount of income that can be identified to offset contract costs. Reductions anticipated due to the impact of Simper Recycling and DRS.	High	Significant reduction in recyclate revenue assumed.
Statutory changes	Contractor may be able to pass increased costs onto the Authority if these are regarded as qualifying changes in the law under the contracts.	High	Cost included for ETS at £100 per tonne from 2028 onwards
Future Waste Services	Increased procurement costs above those included within the base budget. Only indicative cost estimates can be prepared in respect of FWS contracts that come into effect in 2029.	High	Forecast costs as presented to members on 24th October 2025
pEPR funding	The Authority will be in receipt of EPR funding – the assumption is that this scheme will reduce gradually over time. Should income fall faster than anticipated, the Authority's financial position will worsen	Medium	10% reduction assumed from 2027/28 onwards.

9.2 Taking into account the assumptions above and assuming a year-on-year Levy increase of 2.5% per annum results in the following MTFS forecast:

Table 7: MTFS Forecasts

	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000
MRWA Establishmnet	3,462	3,548	3,637	3,728	3,821
MRWA - other costs	3,375	3,203	3,283	3,365	3,449
Procurement	1,473	1,510	1,510	0	0
WMRC contract	36,726	38,011	39,342	6,786	0
RRC	44,673	44,645	44,683	44,717	44,746
Trade Waste	-1,147	-1,188	-1,229	-1,272	-1,317
New FWS contracts	0	0	0	27,130	33,225
Food Waste	2,957	3,060	3,167	1,538	1,232
Garden Waste Impact	0	0	0	-1,247	-1,560
ETS	0	0	15,235	14,473	13,749
Interest (existing long term debt)	1,269	1,242	1,214	1,187	1,159
Interest earned on cash balances	-491	-621	-621	-69	96
Capital Financing	-1,413	1,728	364	2,969	6,474
EPR	-11,606	-10,445	-9,401	-8,461	-7,615
Total Expenditure	**79,277**	**84,693**	**101,184**	**94,845**	**97,460**
Net Levy (net of recycling credits)	-80,939	-82,963	-85,037	-87,163	-89,342
Net Position	**-1,662**	**1,730**	**16,147**	**7,682**	**8,118**
General Fund Reserves b/f	-22,606	-24,268	-22,537	-6,390	1,292
Forecast for Year	-1,662	1,730	16,147	7,682	8,118
General Fund Reserves c/f	**-24,268**	**-22,537**	**-6,390**	**1,292**	**9,410**

9.3 The above table forecasts that the level of General Fund reserves will reduce over the MTFS period and that the rate of reduction will increase when ETS comes into effect in 2028. General Fund reserves could be eliminated by the end of 2029/30, unless steps are taken to mitigate the impact of the ETS costs.

9.4 The details of the ETS are yet to be confirmed and so any cost estimate is extremely uncertain. Whilst the assumption contained in the MTFS forecast may be considered exceptionally prudent, the implication is that there is a real possibility of the Authority facing significantly increased costs in future years resulting in a potential general fund deficit position by 2030/31 if annual Levy increases remain at 2.5%.

9.5 There are potential mitigations available to the Authority as follows:

- Encourage the districts to reduce waste volumes;
- Draw upon earmarked reserves (short-term solution only);
- Advance purchase of ETS allowances whilst prices remain significantly

below £100 per tonne. This is explored further in the Treasury Management Strategy presented for approval at this Authority meeting but again this represent a short-term solution only; and

- A reduction in the scope of the FWS contracts and associated investment.

9.6 In the absence of the above, the only alternative would be to increase the Levy above 2.5% per annum.

Reduction in waste volumes

9.7 Waste arisings remain relatively high in overall terms and the recycling rates across the Merseyside districts remain well below the UK average. As a result, the amount of residual waste being managed by the Authority remains above the volumes originally 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 total expenditure and hence the Levy requirement.

9.8 Without a significant reduction in residual waste, potential 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 waste in the EfW providing the income share that was anticipated when the contract was developed. There is some prospect that some of this may be achieved through the Food Waste proposals, where amounts of up to 50,000 tonnes may be taken from the residual waste stream once the facilities become fully operation in 2027/28.

9.9 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.

Future Waste Services

9.10 The Authority is embarking on an ambitious programme to upgrade its assets to deliver improved services and ensure that it can comply with foreseeable legislative requirements over the next 30 years. The Authority will deliver this through its Future Waste Services (FWS) programme with procurement anticipated to commence in the next financial year with contracts in place by spring 2029. Some £4.5m is budgeted over the next three years to fund the cost of procurement and associated specialist adviser costs.

9.11 The FWS incorporates the four pillars for change described in the Corporate Plan to ensure the Authority is ‘Ready for the Future’ in meeting its challenges. These include:

- Materials Recovery Facility (MRF);

- Household Waste Centres, Waste Transfer Stations & Haulage (HWH);
- Food Waste;
- Green Waste

9.12 The Outline Business Case (OBC) for the procurement to replace the current WMRC contract from May 2029 is approaching completion. Updates are provided to members via monthly Project Board meetings and member workshops such as the one held on 24th October.

9.13 Capital investment of between £150m and £200m will be required in order to meet future legislative requirements and upgrade facilities so that they will enable satisfactory provision of services for the next 20 to 30 years. For the Authority's existing contracts, the private sector financed the capital investment required but the OBC envisages that the majority of the investment for FWS will come from the Authority, possibly in conjunction with the districts and Halton.

9.14 The timeframe to have new contracts in place by May 29 is challenging, especially since land will need to be acquired for both new facilities and the potential extension of existing ones. However, the programme is still on track with procurement expected to formally commence in the latter half of this calendar year.

Improving Efficiency

9.15 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.

9.16 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.

Capital Investment

9.17 The capital programme for 2025-26 at £4.3m is significantly increased from previous years. The programme includes:

- £2.2m to further support the development of facilities to receive food waste delivered by district councils to each of the Authority's Waste Transfer Stations.
- £1.5m in respect of improvements to the Authority's two MRFS to help meet the requirements of Simpler Recycling.

9.18 All aspects of the forward capital programme are generally funded through the Prudential Borrowing framework.

9.19 An Annual Review of the Capital Programme was completed and subsequently approved by SLT and then approved by the Authority as part of the Month 6 monitoring report at its meeting of 21 November 2025. This review incorporated discussions with SLT and service managers to determine an updated profile of expenditure for all schemes. Minimal expenditure (c. £1.4m in total, of which £0.5m relates to completing the works required to facilitate Simpler Recycling) is forecast for the three years from 2026/27 through to 2028/29, prior to the commencement of FWS works.

9.20 The financing of the required investment is incorporated into the Capital Strategy presented for approval this meeting and the costs are incorporated into the cost estimate for FWS contracts contained in Table 7 above.

10. Statement of Financial Robustness

10.1 In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Director of Finance) is required to report on the robustness of the estimates made for the purposes of the revenue budget calculations and the adequacy of the proposed reserves. This information enables a longer-term view of the overall financial resilience of the Authority to be taken. It also reports on the Director of Finance's consideration of the affordability and prudence of capital investment proposals. The level of general balances to support the budget and an appropriate level of Earmarked Reserves maintained by the Authority in accordance with the agreed Authority Policy on Earmarked Reserves, are an integral part of its continued financial resilience supporting the stability of the Authority.

10.2 The full statement is contained at Appendix 3

10.3 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.

10.4 The Authority must consider whether the Levy increase proposed for 2026/27and in the future will enable the Levy income to meet forecast 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 remain financially robust as it moves forward with the Government's agenda for Simpler Recycling and its own FWS procurement.

10.5 It is important to note that the Authority's External Auditor (Grant Thornton LLP) is required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Authority has not yet received the Auditor's final report in respect of 2024/25, but a draft circulated in advance to the Chief Executive and Chair of the Audit Committee demonstrates that the Authority has made considerable progress in addressing the significant issues identified in previous reports. The final report will be provided to the Audit Committee of 12 February 2026.

10.6 Members can be assured that MRWA remains financially resilient in the short term. Work has and is taking place to address the on-going financial pressures that the Authority will face over the medium term. Addressing these challenges relies on the delivery of the Future Waste Services procurement programme and it is vital that the Council delivers on its proposals to transform the way it delivers its waste management and recycling services.

10.7 In conclusion, the Chief Finance Officer is able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates 2026/27.

11. Fees and Charges

11.1 The Authority charges the districts for certain waste arisings outside the standard household collection service: for example commercial waste. The charges are designed to compensate the Authority for the additional cost it incurs in dealing with the additional waste. These costs have been recalculated and the proposed charges for 2026/27 together with the comparison against 2025/26 are as follows:

	2025/26 Charge per tonne	2026/27 Proposed Charge per tonne	% increase
Residual Waste	£136.20	£150.78	10.7%
MRF Recyclables	£67.69	£97.12	43.5%
Food Waste	-	£74.07	N/A

12. Risk Implications

12.1 The major risk concerns the accuracy of the financial projections and in particular the impact of future legislation in 2028/29 and beyond. This is mitigated by the fact that the Authority has built in sufficient reserves to meet additional costs, at least in the short term.

12.2 A more detailed commentary on the adequacy of financial reserves and an assessment of the level required to deal with the risks the Authority faces is contained in the Statement of Financial Robustness, included at Appendix 3.

13. HR Implications

13.1 There are no HR implications contained within this report.

14. Environmental Implications

14.1 There are no new environmental implications arising from this report.

15. Financial Implications

15.1 The financial implications run throughout this report and the appendices.

16. Legal Implications

16.1 The Authority is setting a budget for 2026/27 that ensures there is sufficient income and resource to cover budgeted expenditure for that year, which it is required to do.

17. Conclusion

17.1 The Authority is required to establish and approve a budget for 2026/27 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.