

Corporate Issues and Reform Overview & Scrutiny Committee

Date: 11 November 2020

Subject: Budget Update 2020/21 and Medium Term Financial Plan (MTFP) to
2023/24

Report of: Steve Wilson, Treasurer

PURPOSE OF REPORT:

To update the Committee with the forecast revenue outturn for 2020/21 and set out an updated strategy outlining major assumptions/risks which have been taken into account in producing these proposals.

RECOMMENDATIONS:

The Committee is requested to:

1. Note and comment on the contents of the report

CONTACT OFFICER:

Lindsey Keech, Head of Finance (Waste & Resources) lindsey.keech@greatermanchester-ca.gov.uk

1. INTRODUCTION/BACKGROUND

1.1 The report provides an updated estimate in relation to the budget out turn for 2020/21 and also an indicative levy forecast for 2021/22.

2. FORECAST OUTTURN 2020/21

2.1 A revised revenue budget has been compiled based upon

- a) Actual tonnage data to August 2020 and revised tonnage forecasts for the remainder of the year;
- b) Updated capital programme timelines; and
- c) Review of spend for the first six months of 2020/21 including additional costs arising from COVID and Brexit contingency;

2.2 This update shows a forecast underspend position but with a transfer from reserves for the in-year refund of levy approved by GMCA plus approved in principle return of reserves to offset payment of levy adjustment by Districts. The table has also been broken down to show the levy adjustment outstanding from 2019/20 as well as the forecast levy adjustment for 2020/21.

	Budget 2020/21 £m	Forecast 2020/21 £m	Variance 2020/21 £m
Operational Costs	109.667	110.954	1.287
Operational Financing	49.118	46.512	(2.606)
Office Costs	5.755	4.678	(1.077)
Non Operational Financing	2.702	2.789	0.087
Total Budget	167.242	164.933	(2.309)
Levy Adjustment 2019/20		0.027	0.027
Levy Adjustment 2020/21		(4.143)	(4.143)
Refund of Levy to Districts (From)/ To Reserves		27.259	27.259
Levy	167.242	167.242	-

2.3 The forecast overspend in Operational Costs is driven by increases in tonnages being presented by Districts and offset by contingencies not expected to be required. Updated tonnage forecasts per waste stream are shown below.

	Levy 2020/21	Latest Projected 2020/21	Variance
Residual	351,741	402,019	50,278
Biowaste	204,607	208,020	3,413
Commingled	107,302	125,714	18,413
Paper and Card	83,482	76,896	(6,587)

Street Sweepings	20,650	22,560	1,910
Trade waste	51,042	41,195	(9,847)
WCA Total	818,824	876,405	57,581

- 2.4 The tonnage driven forecast overspends arise from increased commingled recycle processing costs, residual waste treatment costs which have been offset by reduced forecast spend on lifecycle costs and the release of the Brexit contingency.
- 2.5 The forecast underspend on operational financing arises from a slight reduction in the Minimum Revenue Provision charge for the year, but mostly is due to reduced interest rates to be paid on the temporary borrowing that is still in place from the termination of the PFI. The Waste & Resources service is currently utilising the cash flow of the wider Authority.
- 2.6 The forecast underspend on Office Cost is a combination of reduced spending on consultancy fees, premises related expenditure as a result of the focus on the residual processing at facilities and vacant posts that are not expected to be filled.
- 2.7 The forecast above includes a refund of levy of £20m to Districts that was approved at 31 July 2020 GMCA meeting (£15m) and 25 September 2020 GMCA meeting (£5m).
- 2.8 Key risks to the above forecast are outlined below:
- a) **Tonnage forecasts**
There is uncertainty about the levels of waste being presented at the kerbside during the remainder of the year due to residents working from home or in their workplaces;
 - b) **Disruption from Facility Modifications**
The forecast outturn includes costs associated with normal contract operations as well as an allowance for lost electricity revenues up until 30 September 2020 in line with the Waste and Resource Management Services (WRMS) contract while the Raikes Lane, Bolton turbine is being installed and modifications are in progress at Longley Lane, Sharston; and
 - c) **Brexit**
The budget includes a sum to provide for any costs that may have arisen from a no deal or hard Brexit which has been used to offset the costs from additional tonnages. The risk still remains from delayed exportation of waste nationally leading to increased pressure on UK outlets, availability of staff and fuel and the ability to import necessary parts should a deal not be reached with the European Union. However, the financial impact is not expected to be as large as was anticipated at budget setting time in February 2020.

2.9 A revised capital programme is shown below:

	Budget 2020/21 £m	Forecast 2020/21 £m
Operational Assets	23.090	17.200
Non-Operational Assets	1.800	0.100
Total	24.890	17.300

2.10 The main variances on Operational Assets relate to likely overruns into 2021/22 for MBT modifications and reprofiling of the works at Reliance Street which is scheduled for completion in October 2021. To enable the works on the Operational Assets to be progressed, Non-Operational Assets work has been scaled back. Works have remained at the design stage and are provisionally being scheduled for expenditure in 2021/22.

3. 2021/22 and Beyond Budget Requirements

3.1 Future budget requirements are set out below. At this stage these are indicative numbers only and the overall position will be refined with updated tonnage forecasts which are being provided by Districts and for the HWRCs.

	Budget Requirement from Feb20 £m	Budget Requirement £m	Increase/ (Decrease) from previous year %
2020/21	167.242	167.242	-
2021/22	164.982	162.133	(3.1)
2022/23	168.296	162.628	0.3
2023/24	170.643	164.771	1.3
2024/25	-	167.940	1.9

3.2 The main areas of risk and uncertainty around the budget proposals are outlined below.

3.2.1 District and HWRC Tonnages

Final tonnage forecasts will be available at the beginning of December. Assumptions have been included in these forecasts for inputs from Districts and assumed flows through the facilities. The compilation of these forecasts is particularly challenging this year due to the COVID-19 rules and uncertainty on further restrictions that might be applied.

3.2.3 Facility Modifications

During the period of modifications, the operating contractor may incur additional costs for operation and disposal. A sum of money has been included in the above forecasts.

3.2.4 **Recyclate Revenue Rebate**

Assumed income from the sale of recyclates has been included in the budget but prices during 2020/21 to date have been changeable and quality is driving the price. As Members will be aware, the payment to the contractor is linked to quarterly market movements during the year which exposes the GMCA to any changes in price outside of the budget.

3.2.4 **Brexit**

A sum of money has been included in the budget forecast to take into account the consequences of a No Deal Brexit. The impacts currently being modelled are restrictions on access to markets with higher levels of recyclates reducing available capacity within the UK, and the potential demand for haulage due to a possible shortage of HGV drivers and delays at ports.

3.2.5 **Lifecycle**

Costs for the buildings and infrastructure are at the GMCA's risk. A sum of money has been included in the budget to cover expenditure in this area but actual spend will be determined on demand.