

Waste and Recycling Committee Meeting

Date: 13th January 2021

Subject: Budget and Levy 2021/22 and Medium Term Financial Plan to 2024/25

Report of: Steve Wilson, Treasurer

PURPOSE OF REPORT

The purpose of the report is to set out the forecast outturn for 2020/21 and to seek comment on the proposed budget and levy for 2021/22

RECOMMENDATIONS:

Members of the Committee are recommended to:

1. Note the forecast outturn for 2020/21;
2. Note the proposed 2021/22 Trade Waste rate of £102.30 and £114.83 in 2022/23 to allow forward planning by Districts;
3. Note the capital programme for 2021/22 as set out in Appendix A;
4. Note the budget and levy for 2021/22 of £162.4m (2.9% decrease); and
5. Note the risk position set out in the Balances Strategy and Reserves.

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Equalities Implications:

There are no equalities impacts arising from this report.

Climate Change Impact Assessment and Mitigation Measures

A fundamental principle of the WRMS and HWRCMS contracts is the sustainable management of waste in order to reduce carbon emissions from landfill disposal. The carbon impacts of the contracts are monitored and provided annually by the contractor.

Risk Management:

Under Section 25 of the Local Government Act 2003, the Authority's Chief Financial Officer (the Treasurer) is required to report on the robustness of the estimates made for the purposes of the budget and levy calculations and the adequacy of the proposed reserves. This information enables a longer term view of the overall financial position to be taken.

In accordance with these requirements a review has been undertaken of the risks that the GMCA may face from Waste & Resources activities which would require the allocation of resources over and above those already included in the MTFP budgets. That review broadly supports the proposed Revenue and Balances Strategy.

Legal Considerations:

Please refer to Risk Management section above.

Financial Consequences – Revenue:

This report sets out the proposed Revenue budget for waste disposal in 2021/22.

Financial Consequences – Capital:

This report sets out the proposed capital budget for waste disposal in 2021/22.

Number of attachments to the report: 2; Appendix A Capital Programme for 2021/22 and Appendix B District Levy Changes

Comments/recommendations from Overview & Scrutiny Committee

BACKGROUND PAPERS:

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		Yes
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		
GM Transport Committee	Overview & Scrutiny Committee	
	101120, Corporate Issues and Reform Overview and Scrutiny Committee	

1. INTRODUCTION/BACKGROUND

1.1 The base budget for 2021/22 has been compiled and updated based upon:

- a) District final tonnage information, as supplied in their November 2020 submissions; and
- b) Actual inflation (as measured using the CPI September 2020 index) for the Waste and Resource Management Services (WRMS) and Household Waste Recycling Centre Management Services Contracts (HWRCMS).

1.2 This report is structured to cover the following matters:

- a) Expected Outturn 2020/21;
- b) Original Estimate 2021/22;
- c) MTFP for three further years to 2024/25;
- d) Balances and Reserves Strategy;
- e) Budget Engagement; and
- f) Risk Assessment.

2. EXPECTED OUTTURN 2020/21

2.1 The budget for 2020/21 was set by the GMCA at £167.242m in February 2020. The forecast outturn for 2020/21 is shown below.

	Budget 2020/21 £m	Forecast 2020/21 £m	Variance 2020/21 £m
Operational Costs	109.667	113.820	4.153
Operational Financing	49.118	46.689	(2.429)
Office Costs	5.755	4.795	(0.960)
Non-Operational Financing	2.702	2.792	0.090
Total Budget	167.242	168.096	0.854
Levy Adjustment 2019/20		0.027	0.027
Levy Adjustment 2020/21		(5.197)	(5.197)
Refund of Levy to Districts (From)/ To Reserves		26.951	26.951
		(22.635)	(22.635)
Levy	167.242	167.242	-

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

2.3 The above forecast outturn includes sums of money to cover disruption costs during redevelopment works at Longley Lane, Sharston. Should the works not be completed during 2020/21 permission will be sought at the GMCA meeting in January 2021 to carry forward any underspend in the Medium Term Financial Plan reserve.

	Levy 2020/21	Latest Projected 2020/21	Variance
Residual	351,741	413,252	61,511
Biowaste	204,607	208,052	3,445
Commingled	107,302	128,280	20,978
Paper and Card	83,482	76,385	(7,097)
Street Sweepings	20,650	22,970	2,320
Trade waste	51,042	40,743	(10,299)
WCA Total	818,824	889,682	70,858

- 2.4 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 contract. The Waste & Resources service is currently utilising the cash flow of the wider GMCA.
- 2.5 The forecast underspend on Office Costs 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. Permission will be sought at the GMCA meeting in January 2021 to place any underspend from the Communications & Behavioural Change team budget into an earmarked reserve to support the work on tackling contamination in 2021/22. Underspend is forecast from delays to campaigns due to COVID which will be rescheduled in 2021/22.
- 2.6 Permission will also be sought at the GMCA meeting in January 2021 to carry forward a small underspend on employee costs to enable a 12 month contract to be given to enhance the contract monitoring resources.
- 2.7 The current Levy Allocation Methodology Agreement (LAMA) provides for in-year adjustments to be made when actual waste arisings vary from declared levels. Based upon updated profiled 2020/21 tonnages, an indicative outturn position has been calculated which predicts at District level, additional charges for year-end adjustments may be needed as set out below.

	£m
Bolton	0.567
Bury	0.357
Manchester	1.326
Oldham	0.686
Rochdale	0.520
Salford	0.672
Stockport	0.229
Tameside	0.494
Trafford	<u>0.345</u>
Total	5.197

2.8 The forecast at 2.1 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) alongside the proposal to refund a further amount to offset the levy adjustment payable by Districts so no District pays more than the original levy amount.

2.9 A revised capital programme is shown below:

	Budget 2020/21 £m	Forecast 2020/21 £m
Operational Assets	23.090	19.450
Non-Operational Assets	1.800	0.125
Total	24.890	19.575

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.

2.11 Permission will be sought at the GMCA meeting in January 2021 to add £3m of mobile plant and equipment into the Capital Programme for 2020/21. This was scheduled to be spent in 2019/20 but was delayed. This will not affect the revenue budget as the costs were already included.

3. ORIGINAL ESTIMATES 2021/22

3.1 Revenue

3.1.1 A base budget has been produced based upon achieving the vision and objectives set out in the Greater Manchester Waste Management Strategy.

3.1.2 The effect of the above is to produce a £4.840m decrease in net budget requirement for 2021/22 (2.9% decrease). Further detail is provided below:

	Budget 2021/22 £m
Operational Costs	105.023
Operational Financing	48.830
Office Costs	6.190
Non-Operational Financing	2.629
Total Budget	162.672
Use of Reserves	(0.270)
Levy	162.402

3.2 Levy Apportionment

3.2.1 The tonnages supplied by Districts, in November 2020, have been subjected to scrutiny by the Waste & Resources Team and detailed discussions with District Waste Chief Officers. Future year's projections also include the impact of population/ housing growth.

3.2.2 The tonnage forecasts mean that individual Districts' allocations will vary from the average of 2.9% decrease and have a range of -3.9% (covering -4.4% to -0.5%). The final allocations to Districts can be summarised as:

	2020/21 Levy £m	2021/22 Levy £m	Increase/ (Decrease)
Bolton	19.679	19.025	(3.3%)
Bury	13.573	13.375	(1.5%)
Manchester	30.051	28.731	(4.4%)
Oldham	17.448	16.892	(3.2%)
Rochdale	15.282	14.992	(1.9%)
Salford	19.572	19.115	(2.3%)
Stockport	20.440	19.614	(4.0%)
Tameside	15.111	15.033	(0.5%)
Trafford	16.085	15.625	(2.9%)
Total	167.242	162.402	(2.9%)

3.3 At the February 2015 GMWDA meeting it was agreed that Trade Waste rates would be increased annually for the following year (to allow for forward planning) using the RPIx measure of inflation. The Levy Allocation Methodology Agreement allows for a review of trade waste each year. This year's review has identified that residual and trade waste being presented by Districts has outstripped the spare capacity that was previously available.

3.4 After discussion with District Waste Chief Officers it has been agreed that the rate set will change from 2022/23 to match the forecast cost of waste processed outside the core capacity. That rate in 2022/23 is forecast to be £114.83 per tonne.

3.5 Capital

3.5.1 The revenue budget takes account of the proposed spend on items of a capital nature. Appendix A sets out full details of proposed capital spend in 2021/22. The forecast spend of £23.050m can be summarised as:

- a) £21.300m for operational sites; and
- b) £1.750m for non-operational sites (former landfill sites and solar farm).

4. MTFP TO 2024/25

4.1 The GMCA has adopted a current year plus 3 year planning cycle in this budget paper. A number of assumptions have been made which take a balanced view of the risks facing the service in 2021/22 and beyond.

4.2 Our forward look assumptions for RPIx and CPI inflation are shown below and have been included in the MTFP.

Financial Year	Forecast December RPIx	Forecast September CPI
2021/22	2.8%	0.55%
2022/23	3.0%	2.00%
2023/24	3.0%	2.00%
2024/25	3.0%	2.00%

4.3 The MTFP projections have also assumed that:

- a) Districts will be able to deliver on their expected waste declarations;
- b) No change from England's Resources and Waste Strategy; and
- c) Landfill tax will continue to rise annually by RPI.

4.4 Taking account of the above, the estimated budget and levy for the MTFP period are:

	Budget Requirement £m	Use of Reserves £m	Levy £m	Increase/ (Decrease)
2020/21	167.242		167.242	
2021/22	162.672	(0.270)	162.402	(2.9%)
2022/23	163.058		163.058	0.4%
2023/24	164.764		164.764	1.0%
2024/25	167.625		167.625	1.7%

4.5 Below the headline figures, the impact on Districts will be slightly different and dependent on tonnage forecasts. Appendix B provides indicative details of the District Levy changes over the MTFP period.

5. BALANCES

5.1 The balances attributable to the Waste & Resources team as at 1 April 2020 were £54.458m. During 2020/21 it has been agreed that an in-year refund of £20m of levy from reserves will be given back to Districts. It was also proposed at the 31 July 2020 GMCA meeting that the additional levy imposed on Districts from delivering waste in excess of amounts levied for would be managed by a further return of reserves so that no District has a net cost in excess

of their levied amount. The balance of reserves as at 31 March 2021 is forecast to be £32.205m.

- 5.2 The level of balances is assessed for adequacy on a risk assessed basis, and this reflects the risks below:
- a) Achievement of recycling/composting levels;
 - b) Reduction in contamination;
 - c) Recyclate income prices;
 - d) Assumptions on timetable for modification of remaining facilities and additional operational costs during the period; and
 - e) Upside/ downside risks from energy prices at the Runcorn TPS.
- 5.3 The level of balances is an area that may be reviewed once all outstanding insurance claims and construction works are completed and facilities have passed Acceptance Testing. However, financial risk assessment on an annual basis and the need to hold an appropriate level of balances, will continue to have a major influence on the budget and MTFP for the Waste & Resources Team.

6. BUDGET ENGAGEMENT

- 6.1 In accordance with our usual practice, Officers have sought to engage on budget matters with both Waste Chief Officers and Treasurers of constituent Districts. As far as possible the budget and levy take into account their comments.

7. RISK ASSESSMENT

- 7.1 Under Section 25 of the Local Government Act 2003, the Authority's Chief Financial Officer (the Treasurer) is required to report on the robustness of the estimates made for the purposes of the budget and levy calculations and the adequacy of the proposed reserves. This information enables a longer term view of the overall financial position to be taken.
- 7.2 In accordance with these requirements a review has been undertaken of the risks that the GMCA may face from Waste & Resources activities which would require the allocation of resources over and above those already included in the MTFP budgets. That review broadly supports the proposed Revenue and Balances Strategy.