



Dorset Waste Partnership Joint Committee

Date of Meeting	15 January 2018
Officers	Treasurer and Director of the Dorset Waste Partnership
Subject of Report	Draft Revenue Estimates 2018-19
Executive Summary	<p>This report contains revenue estimates for 2018-19 totalling a net cost of £33.1M in the light of further detailed consideration since the November 2017 Joint Committee, comments from partner councils and Dorset Finance Officers as part of the formal consultation process. The total net budget cost proposed is unchanged from that considered by the Joint Committee on 6th November 2017.</p> <p>The draft revenue estimates are re-presented to facilitate formal agreement by the Joint Committee.</p> <p>Sections of the report explain a number of the main aspects, assumptions and drivers of the budget and some of the sensitivities and risks. These issues were explored in some depth at informal budget workshops with elected members of all partner councils as well as finance colleagues from partner councils. The resulting budget proposal is a standstill budget, which satisfies the affordability question for partners, and which leaves some parts of the budget exposed to greater risk than has previously been the case. This is partially balanced by the Budget Equalisation</p>

	<p>Reserve (BER), funds put aside specifically to deal with budget risk going forward but on a 'one off' basis.</p> <p>A significant new development is the recent pay offer, which is estimated to cost £383k over and above the £33.1m budget referred to in the November Joint Committee paper. It is proposed to transfer in this sum from the Budget Equalisation Reserve to cover this additional cost, reducing the reserve from £1mill to £617k, and keeping the partner funding requirement at £33.1m.</p> <p>Updated cost shares are given for each partner authority, using updated tax base figures.</p>
<p>Impact Assessment:</p>	<p>Equalities Impact Assessment: The services covered by this report have been subject to an Equalities Impact Assessment where appropriate.</p> <p>Use of Evidence: The figures for the draft revenue estimates for 2018/19 have been drawn up taking account of information about service requirements and costs provided by a range of managers of the Dorset Waste Partnership.</p> <p>Budget:</p> <p>The budget contributions expected from each partner to fund the draft revenue budget for 2018/19 are set out in Appendix 2.</p> <p>Risk Assessment:</p> <p>Having considered the risks associated with these decisions using the County Council's approved risk management methodology, the level of risk has been identified as:</p> <p>Current Risk: HIGH Residual Risk: HIGH</p> <p>High risk areas are financial, reputational and critical service delivery.</p> <p>Financial: The operating environment for the Dorset Waste Partnership has potential for overspending arising from uncontrollable external factors (e.g. market prices for recyclates), local factors (e.g. changes in the level of waste generated by Dorset households) and is heavily dependent upon key external contractual relationships for our disposal arrangements.</p> <p>Reputational: The Dorset Waste Partnership is considered to be a good example of partnership working, with some initial historical reputational difficulties having now been countered by good financial and operational performance for several years.</p>

	<p>However, the underlying risk remains and is reflected in the Dorset Waste Partnership risk register.</p> <p>Critical Service Delivery: Waste collection is a vital service for Dorset households and the waste must be disposed of safely and efficiently.</p>
	<p>Other Implications: Sustainability</p> <p>A key objective of the Dorset Waste Partnership is to provide a harmonised service that maximises levels of recycling across the county. The current strategy sets out to achieve a level of 65% by 2025. DWP is achieving 59.45% 2016/17.</p>
<p>Recommendations</p>	<p>That the DWP Joint Committee:</p> <ul style="list-style-type: none"> i) Approve the draft revenue estimates for 2018/19, at £33.1m. ii) Approve the transfer of £383k from the Budget Equalisation Reserve to apply to pay budget lines, to deal with the effect of the pay offer, as a one-off measure. iii) Note the level of budget reductions applied, totalling around £700k within the revenue estimates for 2018/19. iv) Note the cost shares for each partner council.
<p>Reason for Recommendations</p>	<p>The Inter Authority Agreement requires the Joint Committee to approve a revenue budget for the following year, following consultation with partner councils.</p>
<p>Appendices</p>	<p>Appendices –</p> <ul style="list-style-type: none"> 1. Draft revenue estimates 2018/19 with savings and transfer from reserve applied. 2. Cost shares for each partner, using updated tax base. 3. Budget Equalisation Reserve.
<p>Background Papers</p>	<p>None</p>
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1. Background

- 1.1 The Joint Committee meeting of 6th November received a report which presented draft revenue estimates for 2018/19. The report noted the calculation of an “as is” budget at £33.8m, and noted affordability issues for partner councils, and as a result the report focused on a standstill budget of £33.1m and explored the assumptions, risks and issues involved in setting a budget at £33.1m. The detail is repeated later in this report.
- 1.2 Since the meeting of the Joint Committee on 6th November, the proposed cost budget and cost share for each partner will have been taken to each sovereign council for approval. This report is the final step in the budget setting process for 2018/19, to allow the Joint Committee to approve, or otherwise, the budget proposals for 2018/19 taking into account the views of each sovereign partner council.
- 1.3 Since the meeting of the Joint Committee on 6th November, the final calculation of cost share for each partner has been updated, based on the official Council Tax Base (CTB) figures produced by the collection authority partner councils. This is in accordance with the Inter Authority Agreement (IAA). Final figures have already been shared with relevant finance officers in partner councils. The final CTB figures result in no change for the DCC cost share (which is already agreed and fixed under the IAA) and very minor changes for the collection authorities. The change can be seen at Appendix 2.

2. Overview

- 2.1 The draft estimates for 2018/19 are contained in Appendix 1.
- 2.2 The proposed cost of the service that Joint Committee are asked to approve for 2018/19 is £33.1m.
- 2.3 Informal budget workshops have been held in October 2017 with elected members, senior managers, and finance representatives of all partner councils, to consider the affordability of the 2018/19 budget, and consider options where there might be a greater appetite for risk, and/or desire to reduce the service in order to achieve further financial savings. The informal workshops considered the proposal for an “as is” budget requirement of £33.8m, and concluded, on balance, that in order to meet the criteria of the budget being affordable for all partners it needed to reduce to £33.1m.
- 2.4 Whilst the outcomes of the budget workshops were neither formal nor definitive, the resultant discussion has satisfied the Treasurer that a budget of £33.1m, if approved by the Joint Committee, whilst recognising an increased appetite for risk in some areas, is thought to have good practical prospects of being achieved, ensuring that the budget has been set on a reasonable basis.

3. Issues and Assumptions affecting the draft estimates for 2018/19

- 3.1 The starting point for the draft revenues estimates is the 2017/18 position. Figures have been updated to take account of latest information and further knowledge of service delivery since previous medium term financial plans and budgets were presented.
- 3.2 The estimates represent the best level of knowledge that is available at the time of writing. The figures presented in this paper have been considered by the various DWP budget holders and the Senior Management Team, and are considered appropriate for

the purpose of informing partner councils of the estimated cost of the service, including reasonable expectations around securing future savings and thus being able to indicate 2018/19 costs to partner councils.

- 3.3 Some significant assumptions have been made in forming the draft estimates for 2018/19 which brings a degree of risk around the robustness of the estimates, should the practical experience of running the service prove to be different from the assumptions made. Some assurance can be taken from the existence of the Budget Equalisation Reserve (BER), to be able to absorb any arising overspend. Current expectations are that the level of funds within the BER should prove sufficient for all but the most extreme and unforeseen circumstances for the remainder of 2017/18. It should also be noted that, at the time of writing, the financial forecast for 2017/18 is favourable, which, if proved to be the case at year end, will allow the Joint Committee to consider whether the BER could be further 'topped up' at that point, following the close of the 2017/18 financial year, particularly if circumstances have changed at that stage.
- 3.4 Significant issues and assumptions are listed below:
- 3.5 Inflation. A significant proportion of the revenue budget (approximately half) is contracted out, with the major contracts being for the Household Recycling Centres (HRCs), transfer stations, and various waste disposal arrangements. These contracts are subject to an annual uplift based on nationally recognised inflation indices (CPI and RPI). For the purposes of this budget, an inflation rate of 2.5% has been applied. Together with "catch-up" of inflation in respect of 2017/18 (for which inflation was budgeted at 1%, but has recently hit a high of 3.1%) this adds almost £650k to the budget.
- 3.6 Annual pay award. The DWP has almost 400 FTE employees, of which around 310 are front line service delivery operatives (drivers, loaders, and street cleansing staff). As County Council employees, DWP staff receive an annual pay award as agreed nationally. For 2018/19, in November Joint Committee agreed an estimated 1% increase, and the total pay budget increase required at that time was almost £170k.

On 5th December 2017, the National Employers for Local Government Services made a final pay offer covering the two year period of 2018/19 and 2019/20. The 'headline' offer is 2% in each of those two years, but also includes moving towards the government's target for the National Living Wage, with a minimum rate of £8.50 per hour from 1st April 2018, and £9 per hour from 1st April 2019. The minimum rate is currently £7.78 per hour.

If the pay offer were to be accepted, the effect on the DWP budget for 2018/19 would be an additional unbudgeted burden of around £383k, as follows:

- Operations including Street Cleansing £303,300
- Management and Administration £34,400
- Garden Waste and Trade Waste £40,900
- Transport section £4,500

The pay award is greater than 2% for any employee is below the top of Grade 6. For the operational workforce of street cleaners, loaders and driver, for whom pay scales are from Grade 3 up to Grade 6 depending on their role, approaching 100% of this group of employees will received a pay award that is over 2%, and is nearer to 4% for the majority in this group.

By contrast, around 20% of the Management and Admin group would receive a pay award of over 2%.

For the purposes of setting the 2018/19 budget, it is known that partner funding is essentially capped at the 'standstill' budget figure of £33.1m, and that no additional funding is available to partner councils for any increased pay award. Therefore it is proposed to transfer £383k from the Budget Equalisation Reserve to deal with this cost pressure. It should be noted that, whilst the use of these one-off funds deals with the issue for 2018/19, this becomes an additional budget pressure going forward for the 2019/20 budget (and subsequent years).

The proposed pay changes suggest that there may be other 'knock on' implications of the changes at the bottom end of the pay scale. At the time of writing these implications have not been explored, but are flagged up here due to the potential for further financial impact.

- 3.7 Additional collection resource. Pressure arising from new housing development is absorbed within existing capacity wherever possible. However, for 2018/19 existing collection is stretched and additional frontline resource of £166k is required to successfully achieve collection.
- 3.8 Volumes of household waste arising. For the calculation of the "as is" budget of £33.8m, pressure on the disposal contracts arising from further household growth is assumed at 2.5%, which will add a further £250k to the 2018/19 budget. However, for the final, recommended, budget of £33.1m, a riskier assumption is made, partly informed by the favourable picture being experienced in 2017/18. This is referred to further below.
- 3.9 Recyclate price. The price paid for disposal of recyclate is dependent upon the market price, which is subject to international economic factors. The informal budget workshops were informed of the trend pattern of the recyclate price in recent history and noted an expected worsening in the international market particularly due to the 'National Sword' operation in China, which is expected to have global repercussions. The proposed budget of £33.1m includes recyclate price at £0 per tonne, which is a riskier approach than proposed in the 'as is' budget. Whilst prices in 2017/18 have generally been favourable for the DWP, this budget line will no doubt remain volatile, with current or past prices not necessarily being a guide to future prices. This budget line will continue to be monitored closely going forward. It should be noted that, at the time of writing this report, recyclate fee paid by DWP has moved above £0 per tonne for the two most recent months, which highlights that the budgeted price for 2018/19 may well prove to be inadequate.
- 3.10 Garden Waste trading account. The draft revenue budget contains assumptions on that the Garden Waste customer base continues to expand, and increases the contribution to overheads accordingly. The price for the service for 2018/19 has been set at £49 for the full year, as agreed by the Chairman and Director.
- 3.11 Commercial Waste trading account. The Joint Committee will be aware of the steady growth in the DWP Commercial Waste service. The 2018/19 budget aims for ambitious growth in income from £2.144m budgeted for 2017/18 to £2.347m as a target for 2018/19, plus a further stretch target as per paragraph 4.2 below.
- 3.12 The capital charges budget represents the repayment costs of capital borrowing on assets plus associated interest on borrowing of funding. The capital charges budget for 2018/19 is based on the latest expectations of the capital programme, as seen by

the Joint Committee at the meeting of 6th November 2017. This adds almost £350k to the budget for 2018/19.

4. Savings for 2018/19

4.1 The 'as is' budget already includes £395k of savings and cost reductions in a number of areas as follows:

- End of inherited vehicle leasing arrangements for the Crookhill area. (Approximately £160k)
- Changing waste disposal arrangements to more favourable prices / contracts (Approximately £160k)
- Agreed reductions in support service costs (Approximately £45k)
- Transport staffing changes (Approximately £30k)

4.2 In order to achieve the standstill budget of £33.1m, further savings of almost £700k will be required. After consideration, and taking into account the views expressed at the informal budget workshops, the following further savings and reductions will be included in the 2018/19 budget:

- Reduce the assumption of recyclate price to £0/tonne (£291k)
- Reduce assumptions on waste arisings from 2.5% to 1% (£150k)
- Stretch target for Garden Waste service (£144k)
- Stretch target for Commercial Waste service (£44k)
- Savings from changes in container management arrangements (£15k)
- In-year savings to be identified (£39k)

4.3 It is hoped that the final item above, in-year savings to be identified, can be met from staff vacancies (turnover, not recruitment freeze) or ad-hoc income. In the worst case scenario, if this saving cannot be found, it will become a burden on the Budget Equalisation Reserve.

5. Budget Equalisation Reserve

5.1 Appendix 3 reminds the Joint Committee of the existing balance of £1m held in the reserve, and the effect on the reserve of the recommendation to transfer £383k, leaving a balance of £617k.

5.2 The Joint Committee are reminded that should the forecast underspend for 2017/18 be realised there will be options to consider around making a further contribution to the Budget Equalisation Reserve and / or returning underspends to partners in accordance with the cost sharing agreement.

6. Risks and sensitivities

6.1 The section of the report is intended to give Joint Committee members a quantification of the major financial risks and sensitivities associated with the proposed 2018/19 budget.

6.2 Recyclate price. Using prices from the last two years as a basis, price swings of up to £0.5m in either direction are conceivable.

6.3 Vehicle fuel price. An upwards movement of 25p per litre, if in place for the whole year, would cost the DWP around £0.5m.

- 6.4 Residual waste. The highest price for residual waste disposal in 2018/19 almost £119 per tonne (before haulage), with around 62,000 tonnes expected during the year. A 1% variation in tonnages arising will have an effect of around £74k.
- 6.5 HRC charging arrangements. There is a threat that legislation may reverse the charging arrangements implemented at HRCs, which would cost the DWP at least £250k.
- 6.6 Closed landfill liabilities. The DWP has responsibility for numerous closed landfill sites. Unforeseen closed landfill failures will have a significant but unquantifiable cost.

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